

PART - ONE

Seminar

on

✓ ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA ✓

CONCEPT OF DEVELOPMENT AND UNDERDEVELOPMENT IN THE  
CONTEXT OF THE POLITICAL ECONOMY OF INDIA

by

Sarthi Acharya  
Indian Council of Social Science Research  
New Delhi

GIRI INSTITUTE OF DEVELOPMENT STUDIES

and

STATE PLANNING INSTITUTE

LUCKNOW

✓ February 21-22, 1981

Seminar  
Part – One  
Contents

1. Sarthi Acharya - Concept of development \_ India
2. G.S. Bhalla -- Alternative -----Analysis
3. Shela Bhalla --- The Essentials --- Growisng State
4. P.R. Brahmunanda ---Three Questions ---Theme
5. K.K. Das Gupta --- An Alternative ----- Priorities
6. K.P. Gupta ---- The Kaliguj Synderme ----- Modernity
7. Shiv K. Gupta ----- The Relevance -----India
8. B.N Jugal ----- ON the Concept -----Alternatives
9. K.N. Kabra ----- Self – Reliant ----- Development



CONCEPT OF DEVELOPMENT AND UNDERDEVELOPMENT IN THE  
CONTEXT OF THE POLITICAL ECONOMY OF INDIA

Sarthi Acharya

1. On Defining Under-development

Countries of Africa, Asia (and Latin America), liberated from European Colonial 'oppressive and exploitative rule present a rather heterogenous picture of backwardness, which cannot be depicted by a single word or phrase. Even in the same economy the characteristics of backwardness are diverse and heterogenous, as some of the sectors or regions are as modern as those in the USA or UK, while the others are as backward as perhaps the primitive age in the history of mankind. The co-existence of sophisticated mechanized transport along with animal or human transport labour, of multiple technologies of production, of mixed economic and social formations, simultaneous use of mud-thatched houses along with multi-story apartments etc. are a typical characteristic of the developing economies.

These economies have mixed socio-economic formations where there are both concealed and apparent antagonisms between different sectors and classes. To take a few, there are examples of the existence of a very large number of economic activities of the 'lower economic order', particularly in the household where the productivity is extremely low and the level of under-employment high. Against this there are large modern manufacturing industries with high degree of economic efficiency and technology. There is often an unequal trade relationship between the two, leading to survival problems and perpetuation of utter poverty in the former. Another polaric duo is that of the urban and rural sectors. Most under-developed countries

have large population concentrations in agriculture, which also usually has the predominant component in the national produce of the country. In view of the heavy population pressure on land and primitive agriculture, the level of modernization and productivity of land is very low at places abysmally low. Against this, the politically dominant affluent sectors that hegemonise State power (and therefore the decision-making process) are in the modernized urban, secondary (often foreign backed) sectors, whose efforts are perpetually to get surpluses from agriculture and primary activities in order to industrialize further. Similarly, there is the issue of workers in the modern sectors and traditional sectors, rural areas and urban areas etc. which present their own complex scenario.

Most of the classical theories of development and under-development put forward a hypothesis that the developing economies are in an early stage of development which the advanced countries had already undergone a century or so back. Thus, if the development strategy is pursued along a capitalistic path, in the coming years the growth of these countries is going to take them to a stage where the developed world finds itself today. At the same time, these theories point out problems of capital accumulation arising from the low level of saving and investment on one hand and inadequate investment opportunities to plough back the surpluses on the other. Population explosion is yet another consideration in their analysis. Underdevelopment is explained, as by scholars like Nurkse, through some vicious circles which bring in a circular argument of prevalence of the existing equilibrium as it is, at a low level.<sup>1</sup> However these theories appear

---

<sup>1</sup>The vicious circle theories are well elaborated in Meier G.M. and Baldwin R.E., Economic Development (New York, 1959). Their critique can be found in I. Nyilas (ed.) Theory and Practice of Development in the III World (Budapest, 1977).

erroneous in nature. A look at the history of development of the advanced world reveals that the characteristics of their growth were based on colonial plunder and exploitation, evolution of modern technology along with the growth process, ready markets for the goods produced, unequal exchange and deliberate destruction of competitive products from the weaker trading partners. On the other hand, the developing economies have none of these advantages today; in fact, there are distinct disadvantages in all the issues stated above. Secondly, the attempt in these theories is to develop a general framework of the theory of development and underdevelopment at a moment of time and explain away all processes of backwardness through some "key" variables and tautologies. In other words, underdevelopment is a phenomenon which can be identified by a few variables like the per capita income, consumption, composition of national income, overhead facilities, rate of capital accumulation etc. They do not take account of the socio-economic-cultural-political relations, which makes these categories metaphysical and therefore meaningless. Above all such theories fail to explain as to what impediments hamper rapid economic development and consequently what obstacles have to be removed in order to liquidate that state of underdevelopment in the shortest period of time.

In identification of the process of development and underdevelopment, three specific arguments in the frame of analysis are very important but they tend to get neglected in the conventional capital accumulation theories of development. As scholars like Frank and Samir Amin have pointed out, one is the role of history in explaining the state of development. What the world is today is a continuum of

what it was in the past. The underdeveloped countries of today have gone through a peculiar development process which was a part of the development process of imperialism, of the world capitalist system as a whole. These countries thus have fed the colonial masters for their development at the price of their own underdevelopment. From this emerges the second argument. The developing countries have not developed independently under the colonial rule. Thus these countries may have both their physical and human resources underexploited, but the causes of their backwardness do not lie in the internal factors alone. There is need to explore into external factors for identifying the causes behind underdevelopment. The third argument in this series is that of the qualitative dimension. More than the quantitative dimensions like the per capita income which would put Kuwait and the USA in the same bracket of development, or distribution of income which would put East Germany and Vietnam in a comparable category and the like there are qualitative aspects like culture, sociology, level of consciousness, education, economic and social formations, distortions and changes in land-labour capital relations etc. which are much more important in the development debate.

After the above clarification on the methodological issues we can now define underdevelopment. Underdevelopment is a situation which is the result of a specific distorted development.<sup>2</sup>

The colonial system, established through the 18th and the early 19th century was the specific manifestation of the worldwide expansion of the capitalistic mode of production, which was out-

---

<sup>2</sup>The definition is borrowed from I. Szentes, "The Main Theoretical Questions of Underdevelopment," in J. Nyilas (ed.), Theory and Practice of Development and Underdevelopment, (Budapest, 1977)



growing national limits. Rapid industrial growth was accompanied by an increase in the number of the employed (largely from the otherwise formerly self-sufficient rural sector), consequently generating excessive demand for food stuffs, minerals and agricultural raw material. On the other hand, there was want for a market for the manufactured goods. Considering the weak British agricultural sector and the general low purchasing power of the British population through the 18th and 19th centuries, the internal capitalistic laws of under-utilization of industrial capacity, unemployment and falling rate of profit were increasingly becoming apparent. This was largely true for France, Holland and other European powers also. There followed a race towards Africa and Asia for capturing external economies which would provide factors of production as well as the markets for the manufactures at terms dictated by the former. World capitalism began to expand for its own survival.

Inevitably thus, after a series of colonial conquests and bloody imperialist wars, the world was divided, to borrow Sartre's description, with a quarter of its population consisting of men and three quarters as natives.

In specific terms the colonies became,

- a) the suppliers of mineral and agricultural raw materials to the parent countries;
- b) secure markets for their industrial goods; and
- c) the territories of their investment activities.

It is in accordance with these functions that the economies of the colonial and dependent countries were shaped. The dependent relations have continued over all this period and even continue today,

though the factors and variables of dependence have undergone substantial changes overtime. For instance, in the mid and later 20th century, the emphasis has been on technology.

Private foreign capital flowing into the colonized territories and supported by purposive economic policy developed the leading export sectors of the dependent countries - the agricultural cash crop economy and the mineral and raw material production. Lack of local skilled labour and the high costs of imported industrial machinery stimulated capital investments in commercial agriculture and mining of low capital intensity which required unskilled labour. Foreign capital integrated these economies into a general capitalistic market even as it distorted the economic structure locally. Domestic capital was thus hindered from entering certain key sectors.

Dualism in the social and economic formations was also an aspect originating from foreign capital. Foreign capital while turning part of the economy into a capitalistic one (and introducing a new strata of wage-workers and paid employees), preserved the old lower forms of production particularly with a view to, firstly, deplete them economically and at the same time keep the bulk of the population in that sector so that an unlimited reservoir of cheap labour is permanently maintained and, secondly, to maintain political stability by controlling the power elites of the pre-capitalist modes of production.

The international supply and demand inducements and spontaneous market forces channelled economic activities and investments into a direction to which even local investors were compelled to adopt



themselves to a great extent. This mechanism assumed a cumulative process and with its perpetuation there sprang up, as appendages to the foreign capital, secondary forms of domestic capital and the corresponding strata of local society, often referred to as comprador capital and comprador bourgeoisie, which were directly interested in cooperation with the foreign interests. This formation of another class of bourgeoisie cemented the distorted, one sector, primary export-generating economy and established deep roots of a foreign dominated capitalism and an underdeveloped economy emerged out of a super-imposed alien mode of production upon the local economy, often by brutal force.

This state of distorted development has thus been derived from external factors related to the movement of the world capitalist economy. As a result of the external factors, a peculiarly distorted and internally disintegrated economic and social structure has come into being, which in turn has become the determinant and the basis for a system of external relations of the mechanism of dependence and exploitation. The typical characteristics of underdevelopment can in short be stated as,

- a) Economic dependence on foreign capitalist powers;
- b) income losses to or systematic income drain by foreign capitalistic powers, i.e. state of exploitation;
- c) internally disintegrated economy with distorted structure;
- d) heterogenous society of a dualistic structure.

Thus underdevelopment is a consequence of both external factors (a) and (b) above and internal factors (c) and (d) above in a historical perspective, and embeds both qualitative and quantitative dimensions.

## 2. Indian Underdevelopment Under Colonial Rule

In the beginning of the 19th century, India's industries consisted of village handicrafts, closely linked through a system of communal ties with agriculture as well as the handicrafts, cottage industries and small manual establishments in towns, particularly seaports. Since the system of hereditary specialization was widely prevalent, there was a marked low level of division of labour and thereby the productivity was low.

British colonial domination affected these lower forms of industry in many ways. Firstly it brought about a direct ruin of the Indian handicrafts. The monopoly on foreign trade and restricted tariffs on the import of Indian goods including textiles and sugar cut off the Indian manufacturers from foreign markets. Indian handicrafts suffered further with the dismissal of the feudal lords and the disbandment of their armies. Since the tastes (and policies) of the British were different, there was a sharp fall in the demand for luxury goods, arms and military equipment. This, coupled with the imported (and later the local factory sector) goods of an entirely different variety helped seal the doom on the handicraft manufacture and its manufacturers in India. With the development of transport, the phenomenon reached the interior too, and capitalist order had begun to gain foot-steps.

On the other hand (as stated in part 1), the British were also interested in preserving lower forms of industry in India as one of their principal interests was to convert India into an agrarian, raw material base for the metropolitan country. The exploitation of peasants was intensified to maximize the surpluses and this retarded

the development of productive forces. The system of reproduction and the way of life in the countryside that took shape on this basis, ensured the traditional demand for consumer and producer goods. There was a direct relation between the persistence of backward production forces in agriculture and the preservation of the lower forms of industry.

This preservation of some lower forms of industry led to far reaching effects on the workers. Because of the agrarian overpopulation, particularly acute and chronic in the epoch of imperialism, the army of permanently unemployed or partially unemployed agricultural workers grew rapidly while the productive forces grew at a much slower rate. There was therefore a persistent gap between the demand and the supply. Wages in the lower forms of production, as Shirokov points out (in Industrialization in India) fell even below the natural limits of subsistence.

The lower form industries which steadily declined through the 19th and 20th centuries were the handicrafts, handspinning, jute, metal etc., while industries designed to either support export or export products like food processing, tanning coir articles etc. survived.

As for the organized industry, its study can be divided into two periods; one, that of inflow of the foreign capital and the other, that of the conflict between interests of foreign capital and that of the Indian capital.

By the end of the 18th century, the East India Company began



to set up either directly or through agencies of British Entrepreneurs, coal, metallurgical, textile, sugar and other industries. But with the first war of independence in 1857, it became apparent that the future of the crown in India depended upon larger involvement of local capital and elite and by early 1870s the colonial authorities were directly developing coal industry, arsenals, ordnance factories and a metallurgical plant.

The economic drain has been calculated by a study (done by R.K. Mukherjee) at the rate of £25,000,000 annually in the first half of the 19th century, while the wages of a labourer in India were of the order of 2 pence per day. This drain included the persistent export of food from India which, in the late 19th century led to mass starvation and death to more than 3 million people. Due to the "production for export" policy, the locations of Indian industries were solely at the seaports, namely at Bombay, Calcutta and Madras, with the exception of Kanpur, which was industrialized due to military reasons. British was also India's sole supplier of equipment and manufactured goods and thus imports were practically exempt from customs duty. Since the orders were placed directly to the metropolitan country, local capital had little scope except to concentrate on extraction industries alone.

But over time with the consolidation and entrance of Indian manufactured goods in the domestic market, there grew a conflict between the Indian and British interests. It was then that the colonial administration resorted to discriminatory measures against organized Indian industry. One of the steps taken in that direction was the introduction of excise on cotton fabrics in 1896. Earlier in 1870

import duties were introduced on long staple cotton for the local textile industry. For some time, the British were able to effectively stall local investment in industries where it hit the British interests. But then in the early 20th century, three things occurred which not only changed the industrial scene in India but also weakened the foundations of the British Empire.

The first was the rise of the political voice of the national bourgeoisie. The earlier writings of Dada Bhai Naroji etc. and the Indian National Congress voiced their cause and the latter often violently demonstrated against the economic, social and cultural discrimination, and this assumed a cumulative process. The second was the rise of other capitalist and imperial powers like the USA, Germany, France etc., which threatened to compete in the Indian market increasingly. With a view to keep the other foreign influences out and at the same time meet the domestic demand, there was a necessity to permit local capital to meet part of the demand. This again assumed a cumulative process. The third and the most pertinent was the inter-imperialist rivalry leading to World Wars. There was not only a need to divert resources (otherwise exported to the colonies) for war purposes, but also to use the colonies (India) as a potential source for war resources. Thus by the end of the First World War, Indian capital invested in industry exceeded the British capital.

The situation at the eve of Independence was quite different from the early periods. The capital in Indian industries was dominated by the local capitalists though the technology was foreign. Compared to any colonial or dependent country, its industrial potential was the largest.

But the process of underdevelopment was complete by then. There was a predominance of backward agriculture over a narrowly and insufficiently developed industry. Further, there was dependence on foreign markets for the production of fixed as well as working capital and technology. The contribution of industry to the national income was less than 15 per cent with the employment in it being less than 10 per cent of the labour force. Lower forms of the industry contributed 58.2 per cent (Rs.8,700 million) to the total industrial component of the national income and employed 74.1 per cent (9.9 million) of the total industrial employment. Industrial revolution, which involves a transition, from manual to machine production, was far from complete. (Statistics from Estimates of National Income 1946-47 to 1956-57).

In the agricultural sector, the situation was worse. Pre-capitalist forms in agriculture, preserved by the British to control power through the rural elites, prevailed almost everywhere. Due to both a drain from this sector and the non-release of the full productive forces the reproductive capital in agriculture was negligible, leading to primitive methods of operation and very low productivity. Coupled with this was the narrowing of the occupational base due to the de-industrialization process, leading to increasing man-land ratio with the rising population. Acute disparities and subservience of the rural masses, extremely low income, utter poverty and exploitation by the landlords constituted the scenario of agriculture of India. The country was saddled with the Zamindari System on one side, a system marked by absentee landlordism and tenancy leading to a surplus drain in unproductive channels, and the



Ryotwari system on the other, leading to a direct exploitation of cultivators and peasants by the state. One thing common, in both these systems was the primitive method of cultivation and excess population on land. The institutional system was ingenious for an undisturbed exploitation which embedded all the impediments which would hamper development.

### 3. Post-Independence Growth

It is at this juncture that national economic planning under the banner of "Socialism" led by the Indian National Congress, began. The explicit motive behind the planning process was modernization and industrialization of the Indian economy and the main instruments used for that purpose were protectionism and public investment. Initially this was adopted as a policy, out of choice but after 1954, compulsions of the shortage of foreign exchange, which forced upon a strategy of import substitution, led to a necessary legitimization of this policy for a faster growth of the private sector industries and a growth of public investment where the private sector would not/could not enter due to low returns, high risks and the sheer size of the investments. The growth of the public sector industries and projects was also to ensure a regular supply of inputs and provide markets for the private sector industries. A rhetoric of socialism was attached to the public sector investment activities in order to meet the potential political challenges of the poor and the vocal. Further, in order to ensure that the private sector did not suffer slack growth due to lack of financial resources, a series of specialized financial institutions were set up (which were often public-owned or depended on Governmental sources) for extending to them the requisite credit facilities.

The inherent underlying logic of this process of industrialization was that the surpluses of the private sector would be ploughed back for further investment and this was to be supported by public finances. But this could be achieved only if wealth/property taxes were mild and the public funds were to come from sources other than the industrial sector. These sources, as it materialized, were indirect taxes (directly coming from the consumption activities of the larger masses), foreign aid and deficit financing. It would be seen in the following that this policy had far reaching effects.

There is no doubt that in the 15 year period upto 1965-66 there was a growth of about 7 per cent per annum in industrial output and that there was a shift in the composition of the industrial investment and output with products like metals, chemicals, engineering and pharmaceuticals acquiring relatively prominent positions than the traditional ones like the textiles and extracting processes. The growth of industrialization in the period 1966-77 was about 4 per cent per annum with periods of stagnation and inflation alternatively. There is a large literature putting forward theories of temporary/permanent stagnation in the Indian Economy. However empirical evidence shows a strong link between foreign/public investment with the growth of the industrial sector. But these aspects are related to the growth of output. Let us now examine as to what has accompanied this growth and what have been the factors responsible for its occurrence. This would enable to highlight the level of development India has been able to achieve.

Firstly, let us examine the financing of the programmes during the 2nd and 3rd plans, the early period of the industrial planning. Deficit financing and foreign aid accounted for 42 and 43 per cent of the total public sector plan outlays respectively. Direct taxes in the tax revenue accounted for less than 40 per cent in 1955-56 and less than 30 per cent in 1965-66. The principal reliance for finances from this component has been on indirect taxes. By the end of the first plan, the total foreign assistance amounted to Rs.1,966 million, which by 1966, had increased to Rs.61,944 million. In addition to these aid inflows, there were grant inflows too. (Aid is an inflow of foreign credit, which <sup>is</sup> to be paid back with interest). As a result, the component of foreign assistance during the period 1955-56 to 1965-66 increased steadily, the period of fast industrial growth. Alongside this financial dependence was the technological dependence. The typical foreign entrant to the country was the multinational corporation functioning either as a partner in a joint venture (either technical or both financial and technical or as a wholly owned subsidiary). All these were technologically intensive industries. They mainly produced for the local market under high walls of import-protection, and reaped large surpluses which were sent out of the country in forms of royalties, technical fees, dividend payment etc. Even though the actual inflow of foreign capital was small, the control was large. It has been noted that foreign collaborations, which met their own foreign currency requirements, were given preferences in import licences. In view of no initiative for self-sufficiency in technology at the manufacturing level, either in the public sector or in the private sector the drain to foreign countries continued.

Secondly, employment in the Indian industrial sector scarcely rose during the period of industrialization. The proportion of employment in industries in 1971 was the same as that in 1961 according to the Census Reports. Between 1951 and 1966 the factory sector employment increased by less than 3 per cent per annum and between 1966 and 1977 it was only about 1.7 per cent. In March 1977, the total employment in the public and private sector was only about 6.26 million. Meanwhile since the population had been increasing at about 2.5 per cent per annum and the participation rate higher (due to the release of disguised unemployment labour from agriculture), unemployment as recorded both through sample surveys and employment exchanges has risen positively with industrialization. The dismal picture not only related to the employment situation but to wages as well. Between 1954 and 1955, there was a rise in real wages but the level by 1964 almost touched that of 1951. Today the real wages are at the same level as they were in early sixties, which is only slightly higher than 1951. There was in fact a decline in the real wages during the inflation of early seventies and during the emergency. (From Prabhat Patnaik, Industrial Development in India Since Independence, Mimeo, ICSSR, 1978).

The industrialization in India has thus emerged in terms of marginal changes in employment and wages in secondary activities, growing unemployment, technological parasitism and growing dependence and indebtedness to the foreign countries.

The period after 1967 till 1977 has been a period where planning has been taken less seriously. In the three years from



1966-69, the plan was suspended due to unmanageability of the ongoing work, and the 4th plan began in only 1969. The 4th plan was considerably marred by the war and refugee relief and the 5th plan by the following inflation and stagnation. The period of early seventies had been one where the inflation, initially created by the shortages of the war and fall in agricultural production, was fanned by the non-expendability of the existing surplus with the private sector which was used for speculation and luxury consumption. Public investment on which the private sector was so dependent, could not rise with a fear of aggravating the inflation further and foreign investment fell due to uncertainty and low returns. This stagflation was finally averted by the agricultural sector where the production has now been rising continuously. However, the non-independent nature of our industries becomes evident from this also.

In agriculture, the position has been quite complex. In one fashion it can be said that there has been no agricultural planning in India, as there was no serious attempt to regulate the plan priorities of any time except the vocal records and paper legislations.

One of the first attempts to bring growth and justice in rural areas was the act of land reforms and abolition of Zamindari and between 1952 and 1956 a number of legislations quite radical in nature, were passed. However, to keep the political support of the landed interests and at the same time to keep the promises to (and support of) the peasants and the landless labourers, a 'middle of the road' policy was adopted, which though partially regulated some of the classes against very large holdings and absentee land-

lords, fully helped and promoted the interests of the emerging modern and capitalist landowners. The laws against tenancy ousted the poorer tenants from the land which they tilled (under the self-cultivation clauses) and were given arid land which was either unfit for cultivation or was of poor quality. Moreover, these land portions were uneconomically small and quite often the tenants sold them to the landowners and joined the ranks of share-croppers or landless labourers.

The other kinds of programmes for agriculture were related to technological/resource inputs. One of the principal programmes, community development programme, was a step towards,

- a) ensuring proper utilization of resources,
- b) encouraging village people to become self-reliant, capable and willing to participate effectively in nation-building, and
- c) to inculcate a spirit of self-help through panchayats and cooperatives.

For this purpose the whole country was divided into 5,000 blocks, each covering a population of about 50-70 thousand. Along with the agricultural development envisaged in the programmes, there was also a provision of including small scale and cottage, rural industries. The execution of the plans was to be done through Panchayats and Cooperatives, which was also a method to ensure decentralization of decision-making and funds distribution. There was a large distribution of loans in rural areas and the technological inputs. Coupled with the land-distribution and utilization strategies, this led to a growth-rate of about 3 per cent per annum in the agricultural output over 1951-76. However, the whole



scenario can be summarized in a single sentence of Ladjensky "that the national and state legislatures in Asia do not represent the interests of the peasantry". Given the asset and power distribution, cooperatives, panchayats, decentralization means etc. all ended up largely being controlled by the rich and the landed, and not the poor peasantry.

Similarly the growth of small industries and rural industries (particularly Khadi) which have survived, have been due to subsidies from the State and the extremely low wages of the Khadi workers. This is so because of the unequal competition from the organized industries where the economies operating are of a higher order.

By the early sixties, a scheme called Integrated Area Development Plan (IADP) was launched. This was a programme of intensive use of chemical/biological inputs and irrigation, with high yielding variety (HYV) seeds. It was hailed that "cheap food is the best form of Socialism", a slogan of Socialism without changing the socio-economic relations of production. The aim of the programme was to maximize output to meet the challenge of the food crisis, and all other programmes (the Community Development in particular) were shelved. Ironically this output maximizing programme began in the wake of the two major famines, a war and industrial stagnation, but survived to spread through tracts of land in North India. Nationalization of banks in 1969 helped organized market credit reach the rural areas also which further boosted the agrarian economy. But, given the limitations of irrigation and other packets to only the larger landowners, land productivity and therefore the surpluses

from certain lands increased, leading to (a) consolidation of land (b) rise in land prices. Both those led to alienation of the small cultivator from land and swelling of the ranks of the landless labourers.

With the general capitalization of agriculture, it was expected that employment would rise due to the intensity of land use. But this did not happen very effectively, firstly because of the high rate release of the underemployed and secondly, due to the reabsorption rate being slow on account of the introduction of agricultural mechanization and labour replacing processes (subsidized by the State). The wages too, even if the legislations provide some minimum limits, often dip quite low due to both, the market and the socio-cultural formations of castes and tribes.

Another word may also be put in for the resource-intensity of the farming patterns. The chemical fertilizers are imported at high cost and/or manufactured with technical collaboration, both leading to large payments abroad. This is true for mechanical inputs like tractors, harvestors etc. also.

In the seventies the situation of poverty and unemployment in India reached a level of explosion. The rural tensions increased to the extent that concern was expressed at United Nations Circles about the number of people below the poverty line. A number of sectarian schemes of crash employment etc. came up as a result. The 5th plan had and the 6th plan has given liberal lip service towards the concern for the poorest of the poor and schemes for their revival. But a number of such experiments have shown that

such schemes in isolation are invariably ineffective when they are operated in the same social order without the organization of the poor.

### Conclusion

From the above, a few trends seem clear.

1. The colonial heritage, the combined influence of trade and aid, and the presence of multinational corporations have resulted in heavy drainage of surplus outside the country in the form of royalties, profits, debt repayment etc. This dependence (predominantly technological) has promoted a level of capital-intensity whose economic implications are grave : Monopoly positions are consolidated; there is a distortion in the factor market leading to very little employment generation; a nexus of high skill positions and salary is created; all this leading to generation of excess demand for luxury goods which the firms increasingly produce. An increasingly larger quantum of resources get locked up into this self-feeding, self-perpetuating cycle, depriving the rest of the economy of investible resources.

2. The monopoly position is not only of the industrial capital but is also of the commercial capital, which has a strong hold over the trade, services and agriculture. The impact is felt in form of the creation of a dual urban society, with a "luxury consumption" section at one end, and the pavement dwellers, slums and the underworld on the other.

3. The rural situation too is characterized by dominant power groups (of landowners, money-lenders and traders) on one hand and



very large landless labourers and poor peasant gentry on the other. Exploitation of the latter by the former has shaped a variety of ways like the bonded labourer system, unequal contracts etc. The presence of both the urban commercial capital and the large scale industry products is instrumental in the destruction of any attempts of productive activity in the non-agricultural rural sector. With the continuous narrowing of the occupational base and the closed labour market in the organized sector, the landless labourers and the slum population (urban migration and concentration) rise continuously, overcrowding the agricultural land and the towns.

4. Consequent of the above three is the infrastructure. From schools to roads, health to entertainment, all have been designed for the "haves".

The Indian economy is caught up in a maelstrom of luxury and lumpenization, affluence and poverty, all in a cycle of recurrent crises. The country has inherited a distorted economy and instead of attempting structural changes, the new rulers continued on the same structure as in 1947 only with greater intensity. This has further distorted our economic base and the socio-cultural values. Not only has economic growth perpetuated dependence and drain, the dualistic economic and social formations continue. In this fashion, India has grown but not developed. This is because the politics of the actors of growth conflicts with the development objectives; the latter demanding herculean distributive effort as against the former's tendency towards accumulation.

(2)

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

ALTERNATIVE STRATEGIES IN INDIAN DEVELOPMENT :  
A CRITICAL ANALYSIS

by  
G.S. Bhalla  
Jawaharlal Nehru University  
New Delhi

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21 - 22, 1981

Alternative Strategies in Indian Development -

A critical analysis

by

G.S. BHALLA

A heated debate has taken place amongst the economists regarding the appropriate strategies to be followed by the developing countries. As a consequence, a vast literature has sprung up on problems of planning and growth.

It is not the purpose of this paper to review the various approaches to development as this has been very admirably done by the Background paper prepared by Dr. B.K.Joshi. Instead an attempt would be made to critically examine the strategies of development that have been followed in India since independence, the important changes that these strategies have undergone over a period of 30 years, and the alternative strategies that seem relevant for the eighties.

In this context a few points need emphasis. The main decision about the choice of strategies is always made by the policy makers in the Government in power. The policy choices are basically influenced by the interplay of economic and political forces. The composition of coalition of ruling classes in a multi-structural society and the actual stage of development of productive forces in various sectors of the economy are the main determinants of policies followed by the Government. Another notable point is that the process of development brings about a change in the constellation of economic and political forces as a result of the emergence of new politico economic



formations leading thereby to stresses and strains in the ruling coalition and also attempts at obvious shifting of class alliances and of policies and programmes.

It is in this context that the role of a political leadership becomes crucial. The wisdom of political leadership lies in identifying the most progressive, dynamic and leading mode of production in the complex interplay of multi structural formations and selecting appropriate strategies for the development of this mode by reaching a consensus between various interests. A long term development strategy, therefore, implies that the continuous changes in mode and relations of production are simultaneously translated into appropriate alterations in short term policies and programmes.

The purpose of this paper is, therefore, to very broadly examine the nature of strategies that were followed in India over a period of last 30 years, the main thrust of these strategies, the changes that have taken place in the configuration of both economic and political forces since that time and the turns and twists of development strategies under the impact of these changes. An attempt will also be made to suggest some new lines of thought on alternative strategies keeping in mind the socio economic context referred to above.

#### Section 1: Development strategies since Independence:

##### A      Decade of Fifties - the Evolution of Planned Development:

The initial thoughts about development strategies in India constitute a part and parcel of the freedom struggle in the country. The main political party, the Congress which came

into power after independence was wedded to building a strong and independent India. The lot of the poor teeming millions, the landless labourers and other sections of backward population was to be improved through a process of economic development and institutional changes. Special attention was to be paid to changing the antiquated and oppressive system of land relations. Therefore, there was hardly any controversy with regard to the introduction of land reforms after independence.

There were, however, very vital differences on the issue of industrialisation. Herein three distinct ideologies were prevalent. All there were reflected in the three plans that appeared on the scene during the late forties. The three distinct viewpoints were the Gandhian perspective, the pure capitalist perspective and the socialist perspective. Basically the Gandhian perspective was anti-industrialisation. They believed in creation of a society based on self-sufficient village communities where most of the needs of the population could be met from within the village itself. It may be added that all citizens were expected to limit their wants to the minimum and hence the model was workable. The Capitalist ideology (presented in the Bombay Plan) envisaged a very rapid development of industries and an emphasis on diverting population from the village to the cities and making India an advanced industrial country. The socialist perspective emphasised the need for nationalisation of key sectors of economy and undertaking development with a view to benefit the working peasantry and the

working class. The official view of Congress was never clearly stated, but the various reports of the National Planning Committee, gave an idea about the dominant thinking.

The process of economic development in India was initiated with the launching of the First Five Year Plan. This plan aimed to initiate institutional changes in the agrarian sectors, to strengthen the economy at the base through provision of infrastructure and also meet certain urgent problems that had arisen out of war and partition. The main thrust was on land reforms and provision of irrigation in agriculture and on strengthening and modernising the existing industries in the manufacturing sector within the framework of 1948 Industrial Policy Resolution. The technical rationale adopted for the plan was a crude aggregative Harrod Domar model, wherein high rate of investment in the economy was supposed to generate higher incomes.

The First Plan lacked any clear out perspective on the pattern of industrialisation. In fact, it was nothing but a collection of schemes on irrigation, hydro-electric power and other multi purpose projects and some schemes for industrialisation. The real thrust of planning only started in 1956, with the launching of the second Five Year Plan, by which time the strategy of India's development had been clearly articulated by Pandit Nehru. The evolution of the agricultural and industrial strategies during 1951-1961 is discussed in greater detail below.

A(i) Agricultural strategy during the Fifties:

The agricultural strategy during this period consisted of changing ~~the~~ rural institutional structure through land reforms on the one hand, and the creation of big infra-structure in irrigation and power on the other.

As mentioned earlier, the Congress party was wedded to bringing about radical land reforms after independence. One of the main reason was that whereas the working peasantry and the landless labourers constituted a very important part of the peasant movement and also of the national movement during the freedom struggle, the absentee landlords in general were opposed to independence movement and were the main supporters of the British empire. With the coming into power of Congress Government, no tears were shed for the abolition of these unpopular absentee landlords. Consequently, almost every state passed fairly radical legislation abolishing intermediary rights and giving land to the occupancy tenants against 'reasonable' compensation payable over a period of time. There were areas where semi-feudal interests were strongly entrenched even in the political hierarchy. To that extent they were able to sabotage even the legislation about abolition of intermediatry rights.

However a more determined opposition came to legislation on ceilings on land holdings. Ceilings effect not only the big absentee landlords but also other sections of rich peasantry who were not completely alienated from the national movement and were not as isolated as the semi feudal landlords. They had



their roots in the village, were influential with the administration and the judiciary. Consequently ceilings on land holdings were not effectively implemented in most parts of India. The same is true about legislation on tenancy reforms.

The policy of limited land reforms leading to the abolition of intermediatry rights resulted in important changes in the agrarian structure.

However, the land was not given to the actual cultivators in all cases. In many areas, specially where the peasant movement was weak, large scale ejectment of tenants took place and big cultivators were able to get away with large holdings. This was particularly true of permanently settled areas like Bihar, West Bengal and Orissa and also the erstwhile princely states of Rajasthan and Madhya Pradesh. Furthermore, although self cultivation has become the dominant mode, land reform legislation failed to reduce the very wide inequality in land holdings.

The second element of the agricultural strategy during this period was the creation of a big irrigation and power and other infrastructure. Although the benefits of development were sought to be spread all over the country through the Community Development Programmes, they mainly got concentrated in irrigated areas.

As a result of twin policies of implementation of land and reforms/creation of irrigation infrastructure, agricultural output grew at an unprecedented rate of 3.5 per cent per annum during the fifties. Whereas net area rose at a rate of 1.1 per cent, cropped area increased at a rate of 2.1 per cent.

Yield increase was only 1.6 per cent per annum. Thus it was the extension of area which contributed a major share to increase in output during this period.

A(ii) The Evolution of Industrial Strategy:

The main stress of the **Fifth Five Year Plan** was on development of agriculture and infrastructure. It really lacked any perspective regarding the pattern of industrial development including the role of public sector. The public sector outlay on industries was very meagre and the main objectives of industrial plan were fuller utilisation of existing capacity in producer and consumer goods industries, expansion of capacity in capital and producer goods industries and completion of ongoing projects.

The second Five year plan launched in 1956 marks a turning point in the evolution of development strategy in India. The main architect of this policy was Pandit Nehru.

~~The~~ **avowed** aim of planning was to bring about more rapid growth, self-reliance, greater equality in incomes and wealth and economic power with a view to build a socialistic pattern of society. Although development was to take place in the context of mixed economy, the public sector was to play a crucial role in the development process. The strategy envisaged in the second Five Year Plan consisted of an attempt to develop import substituting industries specially in the engineering, iron and steel and heavy industry area with a view to achieving self reliance. It was felt that the necessity of importing every type of machinery from abroad not only makes the country

vulnerable to foreign pressures, it also hinders the process of industrialisation at home. Mahalanobis also argued that the heavy industry strategy would lead to higher rates of growth over a longer period. It is not intended to critically examine the Mahalanobis model in this paper. Nevertheless a few points are worth noting. Firstly the success of the strategy was dependent on the ability of the economy to invest at a very high rate in the indicated areas. Secondly and this is more important, the additional consumer demand generated because of higher incomes was to be met from increased agricultural production and through production of non food consumer goods in the labour intensive cottage and small scale sectors. Thirdly, the public sector was to play a crucial role not only in providing the basic infrastructure, but also in preventing concentration of power in private hands by controlling the dominating heights of the economy.

The second Five Year Plan proved a great success. Not only were the income and output targets nearly achieved, a great <sup>made</sup> headway was also in the development of heavy industry complex in the country.

The success of the second Five Year Plan and its underlying strategy was mainly due to the fact that India was able to undertake a high rate of investment in the economy in general and in heavy industry in particular because of the massive aid and collaboration received from the Soviet Union. Equally important was the fact that this high rate of investment was fortunately matched by a high rate of agricultural output.

B. Troubled Sixties:

Unfortunately, however, the 'golden age' of Indian planning started running into serious difficulties during the early sixties.

There were several reasons for this, the most important being the slowing down of agricultural growth rate. This was mainly because the potentiality of agricultural growth through extensive methods had almost reached its limits. On the other hand, the demand (need) for foodgrains had increased very rapidly, because of unprecedented increase in population growth rate. The agricultural situation assumed alarming proportion by the middle sixties and necessitated the import of huge quantities of foodgrains under P.L. 480.

Another important constraint was the foreign exchange resources. High rate of investment in the economy had led to higher imports without a matching increase in exports. Although foodgrains came under aid programme, most of the other imports had to be paid for in cash. The trade deficit continued to be quite high ranging between Rs. 800 to Rs. 1000 crores per year.

The third major constraint was the low levels of savings that were generated in the economy. Throughout the sixties, the net saving rate in the economy only ranged between 8.4 to 11.8 per cent as compared with an investment rate ranging between 10.8 to 13.8 per cent. On an average nearly 25 per cent of capital formation was financed by foreign aid. Connected with low aggregate savings was the problem of inadequacy of public sector savings. Despite all the aid received, the public sector had to



resort to deficit financing to bridge the gap between its investment and available resources. The excess demand generated through a high rate of public investment coupled with short supply of foodgrains resulted in a fairly high degree of inflation in the economy. Thus prices were rising at a rate of about 8.6 per cent per annum during 1965-66 to 1970-71. The situation was further aggravated due to substantial increases in defence expenditures because of border wars with China and Pakistan.

It was under these conditions that Indian government succumbed to the IMF and World Bank pressure and devalued its currency. The devaluation in an inflationary background added further fuel to inflation. The economic situation had deteriorated to such an extent by the late sixties, that a plan holiday had to be declared for three years.

In the meantime attempts were being made to develop an alternative strategy for agricultural development. Having reached the limits of growth through extensive methods, stress started being placed on efforts to increase yields on existing irrigated areas through the development of the Intensive Area Development Programmes. The programme was very selective and concentrated on highly irrigated districts only.

The programme met only a limited success as it solely depended on irrigation technology to raise yields. It was only in the late sixties that a real breakthrough came in wheat with the introduction of Borlaug seed-fertilizer technology.

It was mainly due to the introduction of new technology that agricultural output started registering a high growth during the later part of sixties. This resulted in considerable reduction in India's dependence on food imports by the beginning of seventies. Taking sixties as a whole the agricultural output recorded a growth rate of only 1.8 per cent compared with a growth rate of 3.5 per cent per annum during the fifties. Furthermore, in this period the contribution of productivity increase to total output growth rose from 43 per cent during the fifties to about 75 per cent and that of area increase declined from 58 per cent to only 25 per cent.

However, there were very marked regional variations in the growth rate recorded in various parts of the country. Thus, Punjab, Haryana, parts of Rajasthan and Gujarat experienced much higher growth rates than the rest of India. Simultaneously, parts of Andhra Pradesh, Tamil Nadu and Kerala, which had high levels of productivity to start with, were also able to show moderate increase in their productivity levels. On the other hand, the eastern parts of India comprising of East U.P., Bihar, Orissa (which are medium productivity regions) only recorded low to medium rates of growth. Finally, the lowest rate of growth, and sometimes a deceleration, was experienced by the central-southern parts of India (that is Maharashtra, parts of Madhya Pradesh and Rajasthan, and some parts of Karnataka and Andhra Pradesh). It is interesting to note that whereas in the Eastern India institutional constraints played an important role in limiting agricultural growth, in the Central arid zone of India,

it was the lack of irrigation that hampered the regeneration of agriculture.

Slow agricultural growth in many parts of India combined with rapid population growth resulted in widespread prevalence of poverty and unemployment in large parts of rural India.

Nor was the industrial scene ~~more~~ optimistic. Whereas the third plan and later annual plans tried to follow more or less the basic framework laid in the second plan and public investment remained the premier motive force of industrialisation, however the quantum of investment was low and suffered because of increasing expenditure on defence and plan holiday for three years. Nor did the private investment increase at a fast rate. Consequently compared with a growth rate of 6.0 per cent during the fifties, income from manufacturing rose at a rate of only 5.14 per cent during the sixties. Whereas the share of manufacturing in total GDP rose from 11 per cent in 1950-51 to 14.42 per cent in 1970-71, its employment share remained constant at 10 per cent.

Furthermore, the base of industrial structure remained very narrow specially in the private sector. A disproportionately high rate of growth was recorded by luxury consumption goods industries catering to the demand for urban and rural rich classes. Due to lower incomes of a large section of population, the total demand base remained very limited. Even within the narrow structure, there was a considerable growth of monopolies and concentration both in terms of proportion of output as well as of total assets. Many of the one hundred and odd industrial



houses that controlled a major proportion of industrial assets were also entering into collaboration with multi nationals to extend further their base in the economy.

The poor shape of the economy due to low growth rate, lack of diversification, concentration of economic power in the hand of urban industrialists and rural rich farmers, widespread prevalence of poverty among rural and urban masses led to mounting discontent with the chosen path of development. It was, therefore, as a consequence of poor performance of the economy that the basic strategy of Indian development came under fierce attack.

The first major attack came from the World Bank lobby in the early seventies when it was argued that the major problem facing underdeveloped countries was eradication of poverty and that growth by itself could not be depended upon to achieve this objective. People could not eat tractors said Mahbub-Ul-Haq several studies had used NSS consumption data to reveal that a large percentage of people in both urban and rural India lived below the poverty line. Most scholars (with perhaps one exception<sup>1</sup>) suggested that the proportion of poor in India had been increasing along with planned development. A few like Francine Frankel, P. Bardhan, Keith Griffin argued that actually very rapid agricultural growth in areas like Punjab had simultaneously resulted

---

1. Dr. B.S.Minhas was the one who had demonstrated that the proportion of rural poor in India had actually declined over the years.



in accentuation of rural poverty. The slogan, therefore, was less stress on growth and more on Minimum Needs Programme.

The Fifth Plan actually bought this idea partially although it stressed that poverty could not be eradicated without rapid growth.

However, the plan soon ran into difficulties due to unprecedented inflation during 1973-76. The mass discontent resulted in imposition of Emergency. Whereas on the economic front emergency measures succeeded in reducing the rate of inflation, on the political front it generated a great deal of discontent and revulsion because of the adoption of draconian measures. As a result the Congress was dislodged from power in the post-emergency elections held in 1977 and Janata party came into power.

A very serious attack on the path<sup>th</sup> of Indian development came with the assumption of power by<sup>the</sup> Janata party in 1977. Although there was no unanimity on economic programmes among different constituents of Janata, one section (Charan Singh) openly questioned the very rationale of Indian planning.

It was argued that the main responsibility for the illness of the economy and prevalence of large scale poverty and unemployment lay on Nehru's strategy of heavy industry development and neglect of labour intensive cottage and small industries as also agriculture. This had created islands of prosperity and ocean of unemployment and poverty. The new strategy aimed at employment maximisation as a major objective.

This would have to be achieved through the widespread use of labour intensive technologies and as far as possible avoidance of capital intensive techniques in the production process. Another argument advanced in favour of small scale industry was that whereas capital goods industries produced mainly those goods and commodities that are consumed by the rich, it was labour intensive industries that mainly produced goods for the poor.

The 'abortive' sixth Plan toned down the stress on industrialisation but allocated **larger** expenditures on irrigation, Minimum Needs programmes and on social welfare schemes like Food For Work, POP Antodhya etc. In spite of a big attack on Nehru strategy of development, the Janata failed to completely reverse it. There were several reasons for it. Firstly, Janata like Congress was a combination of several class forces and sectional interests. The Capitalist lobby was naturally keen on Capitalist development to continue. They only wanted more freedom of operation and less controls. It is interesting to note that the New Industrial Policy did tend to 'liberalise' the economy by extending the area of private sector and by allowing more liberal imports. Basically, therefore, they were opposed to complete 'ruralisation' of the economy. Secondly, over the years the continuing programmes in heavy industrial area under the public sector have become so important that they take away a major chunk of public investment. It is extremely difficult to stop investing in a continuing project till its completion. Hence the options for completely

changing the direction of investment are fairly limited over a short period. Nevertheless, a concerted effect was made to divert resources into schemes that at best generated low productivity employment.

But the 'populism' built into this combination did lead to several distortions. Thus total subsidies in general and to agriculture in particular were raised to an unprecedentedly high level. The total subsidies for food, fertilizers and exports etc. rose from Rs. 947 crores in 1976-77 to Rs. 1831 in 1979-80. This further pulled down the rate of public savings in the economy.

Because of lack of any clear cut perspective, the Janata Government failed to make full use of some very favourable structural changes that had taken place in the Indian economy during the late seventies as a consequence of cumulative planned development. These changes need underlining:

(i) Firstly, thanks to large extension of irrigation and widespread adoption of new seed-fertilizer technology in irrigated parts of India, the country had at long last become self-sufficient in foodgrains. Food imports during the early seventies had also enabled it to accumulate a buffer stock of nearly 20 mn tonnes of foodgrains.

(ii) Secondly, the net saving rate in the economy had risen from mere 12 per cent of n n p during the sixties to about 19 per cent by 1979-80. (However, as the table below shows the share of public savings had actually come down substantially;.



(iii) Thirdly, the foreign exchange reserves had accumulated because of increase in exports and also unprecedented rise in the transfer payments inflow from Indian migrants to foreign countries.

(iv) Fourthly, the price level was quite stable for three successive years starting from 1976-77 to the end of 1978-79.

Despite all these favourable factors, the rate of growth of the economy did not accelerate above 3.5 per cent. This was because rising saving rate was counter balanced by rising capital output ratio which had increased from 3.1 during the fifties to 6.1 during the seventies. Whereas, the genuine reasons for capital output ratio to rise in agriculture and energy sectors, in many other cases. This represented only under utilisation of capacity due to inefficient management in both the private and public sectors.

Furthermore, the capacity of the public sector to invest at a high rate was considerably reduced because of increasing burden of subsidies for food, fertilizers and exports. On the other hand, the capacity of public sector to mobilise additional resources was hampered due to 'populist' soft line as also because of huge loss to state exchequers due to the enthusiastic implementation of policy on prohibition. Thus an important opportunity to accelerate investment in the public sector was completely missed by the Janata rulers.

It is too early to evaluate the performance of Congress (I) government since it took <sup>over</sup> only in January 1980. But the economy was not in a good shape by the end of 1979. Agricultural output



had declined significantly because of severe drought in many parts of India. Major bottlenecks had developed in the important infra-structural industries like coal, power, railways and cement. Prices had started increasing by the end of 1979-80 when the average of prices wholesale index had increased by 16.7 per cent compared with 1978-79.

Prices increased at even a faster rate during 1979-80. Supply bottlenecks have also continued although capacity utilisation has tended to improve slightly. But the agricultural situation has improved very significantly. On the other hand, the foreign exchange cushion has been considerably reduced both because of reduced exports and mainly because of increased imports of crude, oil seeds and other goods.

On the policy front, some changes are visible. On the positive side the new plan unlike the Janata plan has placed growth as the central objective. Although reduction in poverty and unemployment is included in the objectives, there is no promise to "achieve within a period of 10 years the removal of unemployment ....." However, the broad allocation of sectoral investment is more or less similar except that higher allocation is made for the energy sector.

On the negative side, the populist policy of appeasing the farmers' lobby by giving them unprecedented hike in prices is continued to be pursued. Furthermore, a more open door policy is being adopted towards multinationals whose collaboration is being sought in major areas in the public sector. Licensing and controls are also being relaxed to appease the private sector.

In short, so far there is no evidence of a radical departure from the earlier policies.

Part 2: Critical appraisal of Indian strategy of Development:

Significant changes have come about in the structure of Indian economy and polity since independence. Firstly, capitalism has developed at a very rapid rate in the industrial sphere and India has emerged as the 10th major world industrial power. What is more important is that India has become self-reliant in many crucial areas including iron and steel, metallurgy and the heavy industry sectors and its complete dependence on the foreign monopoly sector has been ended<sup>1</sup>. A qualitative difference has also been made by the emergence of a big public sector which now controls the dominating heights of the economy. Simultaneously, the private sector in general and the big houses among it in particular have also grown rapidly. It finds it advantageous to obtain subsidised inputs from the public sector. Simultaneously, it is increasingly entering into collaboration with the multinationals.

Capitalism has also deeply penetrated into the agricultural sector with the spread of the green revolution in many parts of India. However, in this case the pre-capitalist

- 
1. It is indeed ironic that some so called radicals continue to treat India as a case of dependent development. It only shows extreme subservience to currently popular dogmas with a complete disregard to hard facts.

formations, specially the small and marginal farmers have not only not disappeared, but have become more strongly entrenched because of big increases in land productivity. Simultaneously, a rich class of middle and big peasantry has become both economically and politically much stronger. Another notable feature is that landless labourers have emerged as a distinct class and wages rather than land have become the major class contradiction in the countryside. Interestingly enough in spite of very large disparities of income among the land owning classes, so far there are no signs of differentiation between small and rich farmers.

In the non-green revolution regions, the class differentiation between landless labour and cultivator is much less marked. As noted earlier, in these areas, the extent of poverty has increased due to the process of involution.

The Nehru strategy of development chalked out a consensus among capitalist and agrarian interests with capitalists as the dominating partners. The increased power, of peasantry has gradually sought to challenge this hegemony. All political parties including the left parties vie with each other to obtain a strong hold on peasantry. The ruling party is also increasingly succumbing to the rich farmers' lobby by announcing even higher prices than those fixed by the A.P.C. Most scandalous has been the price fixation of sugarcane. Thus measures including the gimmick of the Kisan rally only demonstrate the anxiety of the ruling party to keep the vote bank safe for itself. This



unprincipled appeasement of peasantry through huge subsidies on inputs and high prices for their output has necessarily reduced the capacity of the public sector to mobilise resources. One important implication is that in spite of very high saving rate achieved by the economy, the share of public sector savings in total net savings has declined from 25.3 per cent during 1976-77 to only 18.4 per cent in 1978-79. Thus a very heavy price is being paid for populism to the detriment of rapid growth of the economy.

Nor is the government able to offend the burgeoning middle classes and highly paid white collar workers. A continued policy of accommodating diverse interests has made it very difficult to bring about appreciable increases in the growth rate of the economy. An alternative development strategy has to be conceived in the context of changed constellation of these economic and political forces.

### Part III: Alternative Strategy for the Eighties:

The main objective of new development strategy should be to diversify the economy with a view to start shifting labour force from agricultural to non-agricultural occupations.

It has not been possible to do so up till now because the rate of industrialisation has not been very rapid. Consequently, problems of poverty and unemployment have been sought to be solved primarily within agriculture. It ought to be understood that there are limits to the extent to which agriculture can absorb labour at a reasonable level of productivity. Furthermore,



modern agriculture has become highly capital intensive and there is evidence to suggest that incremental capital output ratio in agriculture is in no way lower than in industry. This does not mean that agricultural development should be neglected. All that is being suggested is that agriculture should not become the sole ~~me~~<sup>1</sup>stay of increasing population in the country.

To us it appears that India has reached a stage of development where labour force diversification has become possible. The favourable factors in the economy particularly the existence of buffer stock in foodgrains, lack of acute foreign exchange constraint and the capacity of the economy to generate savings at a rate of 23 per cent makes it possible to accelerate the tempo of industrial investment. The scare caused by rising prices has made the policy makers unduly cautious. It should be possible to reduce the pressure on prices through better management of energy and transport sectors.

The real problem is to mobilise a much larger share of burgeoning household savings for public investment. As noted earlier, the increased political power of rich urban and rural sections of population has made it very difficult to increase public savings. The way out of the dilemma is to forge new political alliances of democratic forces in order to thwart this combination.

For rapid industrialisation, public sector has to play a leading role. This can only be done if appropriate administrative techniques are employed for its efficient management.

Agricultural development is a pre-requisite for industrialisation. But the size of market in the rural sector can only be increased if per worker productivity is raised through gradual withdrawal of labour force from agriculture. Simultaneously, diversification must start within agricultural sector itself through vertically integrated programmes for dairying and other allied occupations.

There should be a definite attempt to increase income through productive employment. All programmes like Food for work, Antodaya, Integrated Rural Development Programmes which are more in the nature of welfare schemes should be gradually phased out and replaced by production based employment. In this context, planning at the household level is a pure pipe dream since it is almost impossible to envisage an organisational framework that could undertake this gigantic task. It only diverts attention from much needed production planning.

In an economy like India where the spectrum of production techniques is so wide, it is not possible to modernise the entire production structure at one go. The attempt, therefore, should be to gradually adopt higher technologies and raise labour productivity through the application of modern science and technology. This process has to be backed up by a huge effort at Research and Development. Some scholars have argued that since the size of the internal market is very narrow, and the import substituting industrialisation has reached its limits, export based strategy is the only method for increasing

industrial growth rate. These arguments are fallacious. Firstly, it is difficult to imagine a shrinking home demand in a period when agricultural output has recorded satisfactory progress. Secondly, internal demand is very much a function of investment. An increased rate of investment is bound to extend the home market also.

The talk about <sup>export</sup>/based strategy is aimed to evade the real issues. In a gigantic country of India's size exports can only play a subsidiary role. The real impetus for industrialisation must come from within the economy. Furthermore, a big push in the area of exports can only result in increasing the role of multinationals which can be dangerous.

The strategy of development has to be aimed at making our economy self-reliant and raising the standards of living of our masses. There are no short cuts to achieving these except through faster capital accumulation. A determined government has to avoid yielding to sectional pressures on populist grounds and strain all efforts at resources mobilisation for development.

Although the objective conditions are quite favourable, it is, however, doubtful if the policy makers possess the necessary foresight and will power to launch India on the road to rapid industrialisation.



# SAVINGS & INVESTMENT IN INDIAN ECONOMY

Year	Rate of Savings		Percentage Share of Net Savings by Sectors					Rate of Capital Formation	
----- At Current Prices -----									
	Gross	Net	House- Hold	Priv ate Corp- orate	Public Total	Sector A.M. Dept.	Non- Deptl Ents	Gross	Net
50-51	10.2	7.0	74.35	6.76	18.89	17.66	1.23	10.0	6.8
51-52	10.0	6.7	55.57	12.54	31.89	30.65	1.24	11.9	8.6
52-53	8.3	4.5	73.86	2.40	23.74	20.62	3.12	7.9	4.1
53-54	8.8	5.3	78.87	6.23	14.91	11.70	3.21	8.7	5.1
54-55	10.9	6.8	74.56	9.44	16.00	12.80	3.20	11.0	6.9
55-56	13.9	10.0	83.20	6.21	10.59	8.45	2.14	14.3	10.4
56-57	13.5	9.8	73.80	6.74	14.47	11.68	2.79	16.6	13.0
57-58	11.4	7.3	75.90	3.48	20.62	15.59	5.04	15.4	11.4
58-59	10.5	6.1	74.42	5.88	19.69	13.68	6.01	13.3	9.0
59-60	12.6	8.3	78.44	6.97	14.58	10.05	4.53	14.3	10.0
60-61	13.7	9.3	67.90	8.82	23.29	22.46	0.83	16.9	12.7
61-62	13.1	8.4	61.12	10.54	28.34	28.57	(-)0.23	15.3	10.7
62-63	14.5	9.6	64.44	9.13	26.42	26.42	0.00	17.1	12.3
63-64	14.4	9.8	62.30	8.16	29.53	28.11	1.42	16.6	12.1
64-65	13.6	9.2	64.61	5.19	30.20	29.56	0.64	16.2	12.0
65-66	15.7	11.2	73.03	3.86	23.11	21.16	1.95	18.2	13.8
66-67	16.3	11.8	83.48	3.44	13.08	13.11	(-)0.03	19.7	15.4
67-68	13.9	9.6	85.54	2.38	12.08	12.25	(-)0.17	16.5	12.3
68-69	14.1	9.5	80.11	2.56	17.34	18.03	(-)0.70	15.4	10.8
69-70	16.4	11.8	80.82	3.56	15.62	15.16	0.46	17.1	12.5
70-71	16.8	12.0	77.50	4.88	17.61	16.08	1.53	17.8	13.0
71-72	17.3	12.4	79.45	5.61	14.94	14.55	0.39	18.4	13.6
72-73	16.2	11.3	80.57	4.94	14.49	13.29	1.20	16.9	11.9
73-74	19.3	15.0	81.34	5.75	12.92	11.48	1.44	20.0	15.7
74-75	19.0	14.6	66.70	8.01	25.29	20.87	4.42	19.9	15.6
75-76	20.6	16.0	71.49	3.12	25.40	23.30	2.10	20.5	15.8
76-77	22.9	18.4	72.82	2.16	25.02	20.40	4.62	21.3	16.6
77-78	22.9	18.3	76.06	2.18	21.76	19.12	2.64	22.3	17.7
78-79	23.9	19.3	79.39	2.21	18.40	15.55	2.85	24.1	19.4



3

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

THE ESSENTIALS OF A VIABLE DEVELOPMENT STRATEGY : AN  
INTERPRETATION OF EVIDENCE OF SELF-LIMITING AND SELF-SUS-  
TAINING GROWTH FACTORS IN INDIA AND IN  
INDIA'S FASTEST GROWING STATE

by  
Sheila Bhalla  
Jawaharlal Nehru University  
New Delhi

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981

THE ESSENTIALS OF A VIABLE DEVELOPMENT STRATEGY : AN INTERPRE-  
TATION OF EVIDENCE OF SELF-LIMITING AND SELF-SUSTAINING GROWTH  
FACTORS IN INDIA AND IN INDIA'S FASTEST GROWING STATE

Sheila Bhalla

This paper has only one basic theme. It is that no viable strategy of economic development has yet been devised which did not involve (1) a rise in the share of manufacturing in national output, (2) a proportionate shift of working population out of agriculture, and (3) a widening of the domestic market for industrial goods.

Given our recent experience of the political economy of India's own slow per capita income growth, (in a transitional but still, numerically, primary sector dominated economy), both internally, and vis-a-vis foreign countries and external markets, it is difficult to visualize any alternative strategy, either socialist or capitalist, which does not involve these three essentials. Our own growth processes have generated political pressures from the primary sector which can be interpreted as 'self-limiting' factors born out of the growth process itself. Similarly, the development of a vocal manufacturing sector has led to unrealistic demands for an 'export led' growth strategy in the Indian context, characterised as it is by sluggish growth of the domestic market for manufactured products. These self-limiting responses to the Indian growth process, today constitute transitional political barriers to the vigorous pursuit of the basic strategy outlined above. Such sectional

pressures will continue, and they will have to be countered at the political level, until the occupational shift out of agriculture reduces its weight in the national polity, and rising incomes generally, exert their positive influence more strongly on the domestic demand for industrial goods.

Given this understanding of the basic requirements for Indian economic development, and of the present dangers, the prime tasks facing Indian development planners can be identified as the two following :

First : In agriculture, given the rapidly rising man-land ratio,<sup>1</sup> the most urgent challenge is to raise the carrying capacity of the land; that is, to raise output per acre sufficiently to ensure that, even with expanding absolute numbers, output per worker at least does not fall.

Second : Outside agriculture, to create jobs in sufficient numbers to at least begin the process of shifting out some proportion of the workers now engaged in cultivation and farm labour.

In designing programmes to implement this two pronged development strategy, the policy-makers should be bound by one constraint. The purpose of the whole exercise is to raise productivity per worker. Job opportunities must be multiplied but this

---

<sup>1</sup>The man land ratio, defined here as  $\frac{\text{male agricultural workers}}{\text{net cultivated area (in ha.)}}$  was .51 in 1950-51, .58 in 1960-61, and .66 in 1970-71. Looked at the other way up, there were 1.96 hectares per male agricultural worker in 1951; 1.73 hectares in 1961 and 1.50 hectares in 1971. This is despite the extension of net cultivated area from 129,425,000 hectares in 1950-51, to 144,838,000 hectares in 1960-61, and to 151,382,000 hectares in 1970-71.



cannot be at the cost of reduced incomes per worker. This condition seems to be essential for the widening of the domestic market for manufactured goods.

This paper has three sections. In the first, the underlying analytical framework, constructed by scholars such as Simon Kuznets, Nicholas Kaldor, and more recently, by Chenery and Syrquin, is set out in highly condensed form.

Section II presents an overview of the changes in the output and occupational structures which took place in India's fastest growing state during the decade ended 1971. The main purpose is to illustrate the pitfalls as well as the promise, inherent in the most spectacular state level growth rates recorded in India during the decade, under conditions where no net shift of workers out of agriculture took place.

The third section highlights certain consequences of the structural changes which occurred within agriculture, some of them precisely because there was no proportionate shift of workers to non-agricultural occupations.

The concluding section constitutes an overview and an interpretation of the Indian and the Haryana experience.

### Section I

#### The Essentials of Development

To begin with, the implicit argument underlying this section, should perhaps be made explicit. It is that the essentials of development in the Indian context today are the same as the



"strategic factors"<sup>2</sup> in the earlier economic growth of the now "advanced" countries.

One of the most glaring realities of the world of the 1980's is surely that all rich and powerful countries are industrial countries. The bulk of their national output comes from the secondary and tertiary sectors, and the vast majority of their economically active population works in these two sectors. They grew rich as productivity per worker in all sectors rose. In agriculture it rose partly because output per acre increased, and partly because many workers, born on farms, left agriculture to work in other sectors where earnings were higher. Self-employment in petty service trades and cottage industries in the villages, similarly tended to die out, as the workers engaged in them moved to more remunerative jobs in organised industry and services. Given the crucial pre-condition of a surplus generation within agriculture, however, the prime mover in all of these developments was the rise of manufacturing.

This is not a historical accident, but the product, largely, of the development of technologies which produced significant economies of scale in manufacturing, and nowhere else. The tertiary sector also grew, but to satisfy the demands of other sectors; it had no intrinsic dynamism of its own. These changes

---

<sup>2</sup>This term, and the argument which follows, are taken from Nicholas Kaldor, Strategic Factors in Economic Development, Cornell University Press, 1967. A similar approach is seen in Simon Kuznets, Economic Growth and Structure, Oxford and IBH, 1965, and his series of ten articles published in Economic Development and Cultural Change 1956 to 1967. More recently, Hollis Chenery and Moises Syrquin, in Patterns of Development 1950-1970, (Oxford University Press 1975), tested these basic hypotheses for 101 countries.

were not all initiated and sustained in and by the private sector. Everywhere, it appears, the state intervened actively at some stage or the other, to build railways for example, or to provide technical and other education, or to admit more freely the agricultural surpluses generated in other countries. Most countries were also, at some time, heavy net importers of foreign capital.

These growth impulses were sustained and reinforced, most importantly, by the widening of the domestic market, especially for manufactured goods, consequent upon rising output per worker, and incomes. As people moved above the poverty line, they spent, proportionately, more and more of their incomes on manufactured goods and on services. Thus it appears that the improvement of the incomes of the bottom 40 per cent in the Indian income hierarchy is not just a humanitarian imperative, it is also necessary before an adolescent industrial sector can grow to maturity.

Yet in all these countries, at some earlier stage, the primary sector dominated, both in terms of its share in national output, and in terms of its relative importance in the occupational structure. No country so far has been able to sustain initially high rates of per capita income growth in the absence of this characteristic shift of workers out of agriculture.

Given the recurring tendency, in some quarters, to play down the potential role of industrial growth in poor countries, or even to deny the pre-eminent importance of increasing per worker productivity, it at least does no harm to reiterate that the logic of sustained improvements in output per worker is the same

today for India, as it was (and still is), for Europe, or North America, or the Soviet Union. While it may be argued for some small poor countries that the initial economic conditions, externally, have changed since the heyday of western capitalist development, the argument in favour of "coat-tail" development today does not apply to big countries like India. There is no dynamic capitalist or socialist economy big enough to carry India's 700 million population with them as a sort of appendage to their own expansion. Indeed, with respect to the entire world market, India's own productive capacity is already so great, that the most promising outlet for Indian production lies in the latent demand of India's potentially huge home market.

## Section II

### Structural Change and Growth of the Haryana Economy : 1961 - 1971

In India as a whole, the 'perverse' proportionate shift into agricultural occupations,<sup>3</sup> combined with the negligible rate of growth in primary sector male worker productivity (0.16 per cent), obviously reduces the prospects for employment expansion in other sectors based on the stimulation of effective demand for industrial goods and 'modern' services. The danger is that this dismal overall performance may cause people to overlook certain possibilities inherent in the dynamic growth which took place in several regions. One possibility is that some regions may 'take off' and eventually carry the rest of the country with them, partly through the process of induced migration.

---

<sup>3</sup>In 1961, the primary sector's share in total male workers was 67.98 per cent; in 1971, 70.30 per cent.



For this possibility to be taken seriously it has to be demonstrated that some regional economies have the capacity to carry through the appropriate output, employment, and demand structure shifts within their own areas, and, at the sametime, absorb the spontaneous in-migration of workers from backward states with poor prospects for development.

The purpose of this section and the next one is to examine whether the growth processes in at least one dynamic state economy, satisfy these requirements.

During the decade ended 1971, Haryana achieved the highest economic growth rates in the country, not only of total State Domestic Product, but also in each of the primary, secondary, and tertiary sectors separately. This rapid progress shifted Haryana from fifth place among Indian States, to top position with respect to income per male worker. Detailed figures are given below.

Table 1 : Haryana Income Levels, Growth Rates and Rank Among States : 1961 and 1971 (At constant 1960-61 prices)

Income Variable	1961*	1971*	Growth Rate (Compound)	Growth Rate Rank Among States
	(Rs. Crores)			
1. State Domestic Product				
i. Total	245.00	443.33	6.10	1
ii. Primary	154.11	248.32	4.89	1
iii. Secondary	39.45	92.43	8.89	1
iv. Tertiary	51.45	102.58	7.14	1
2. Per Capita Income Rank Among States	321 (6)	441 (2)	3.04	2
3. Income per male worker Rank among States	1155.85 (5)	1744.31 (1)	4.17	1

\* Income figures for almost all States are three year averages of 1960-61, 1961-62, and 1962-63, and of 1970-71, 1971-72, and 1972-73. However, in the case of Haryana, the 1961 figures are for that year only.



Given the higher rates of growth in the secondary and tertiary sectors as compared with that of agriculture - (which accounts for 99 per cent of the value of primary sector output), the proportion of income generated in agriculture and animal husbandry fell, and the shares of the secondary and tertiary sectors rose. Yet not much happened to the corresponding sectoral shares of male workers. Marginal increases in the relative importance of primary and tertiary sectors in the occupational structures were balanced by a small decline in the share of workers in the secondary sector. Evidently in Haryana, as in India as a whole, the output structure changes are of the 'right' kind, but apparently the corresponding shifts in the employment structure have not even begun.

Table 2 : Sectoral Shares of SDP and Male Workers in Haryana : 1961 and 1971

Sector	Proportion of Income Generated, in :		Proportion of Male : Workers Engaged, in :	
	1961	1971	1961	1971
Primary	62.90	56.01	66.43	66.92
Secondary	16.10	20.85	13.48	11.78
Tertiary	21.00	23.14	20.08	21.30

Yet a great deal of structural change did take place within each broad sector, and all of it can be interpreted as a necessary prelude to the kinds of man power shifts associated with the successful development processes of other countries.

Let us begin with the secondary sector, as there the implications of the shift seem quite clear. Within the secondary

sector, the share of workers in household industry collapsed. Tertiary sector workers, unfortunately are not sub-classified by the Census, into the equivalents of "household" and "non-household" subsets. However, there is sample survey evidence<sup>4</sup> to indicate that low productivity jobs in the service sector have quietly gone out of existence, especially in the Haryana districts where farm output has grown the fastest.

Within agriculture, the composition of workers moved drastically in favour of agricultural labourers as real wage rates and the number of days work available both rose. As early as 1969, the earnings of agricultural labour households had surpassed those of cultivators operating less than 5 acres of land,<sup>5</sup> in the better irrigated areas of the state, despite the rise in the farm incomes of the latter.

Both the shift in agriculture and the shifts in the other two sectors can be interpreted as part of the healthy process of moving workers out of low productivity jobs. But as the next table shows, in agriculture the process has begun at the cultivators' end of the 'agricultural workers' spectrum, and not with respect to hired farm labourers.

---

<sup>4</sup>The present survey, and one other : see Draft Report : "Interrelationship between Agricultural Development and Status of Employment", Institute of Applied Manpower Research, New Delhi, 1978.

<sup>5</sup>See G.S. Bhalla, Changing Agrarian Structure in India, Meenakshi Prakashan, 1974.

Table 3 : Compound Growth Rates of Specified Sections of the Male Work Force in Haryana : 1961 to 1971

Sector/Subsector	Growth Rate (%)
I. <u>Primary</u>	1.91
1. Agricultural workers	1.80
a) Cultivators	0.21
b) Agricultural labourers	9.95
2. All others	8.39
II. <u>Secondary</u>	0.47
1. Manufacturing, processing, etc.	0.19
a) Household industry	-5.62
b) Other than household industry	5.30
2. Construction	2.18
III. <u>Tertiary</u>	2.43
1. Trade and Commerce	3.32
2. Transport, storage, and communications	2.64
3. Other services	1.90
Total Male Workers	1.83
Total Male Population	2.84
Total Male Population aged 15 to 60	2.48

The sub-sectoral male workers growth rates, given in table 3 along with the rates of growth for total male population, and for population in the age group 15 to 60 years, bring out the two most important dimensions of the employment pattern changes which took place during the decade.

First, it is clear that many workers have actually abandoned jobs in one sub-category to enter occupations in other sub-categories, and some must have moved from one sector to another.



Secondly, none of the three major sectors provided additional jobs at a rate rapid enough to absorb the additions to the male population in the prime working age group.

Within sectors, the most striking growth rate figure is obviously the roughly 10 per cent compound expansion rate in the number of male agricultural labourers, which was accompanied by virtual constancy in the number of male cultivators, despite population growth. In the secondary sector, employment expansion in organized industry proceeded at the thoroughly respectable rate of 5.3 per cent. It was the rapid exit of workers from household industry which pulled down the entire manufacturing employment expansion rate to a meagre 0.19 per cent.

Thus the share of cultivators in the work force fell as agricultural output rose, and employment in organised manufacturing grew at more than twice the rate of increase in the total male population aged 15 to 60, and more than three times the rate of growth of all agricultural workers, (cultivators plus agricultural labourers) combined. The biggest fly in the ointment was that the employment base in organised industry in the initial period was so small - only 41 per cent of manufacturing employment, and 5 per cent of all male workers in 1961. By 1971 this base had improved to 68 per cent of manufacturing employment, and 7 per cent of all male workers. It may be noticed also, that the number of male workers in organised industry in 1971 was greater than the number of agricultural labourers in 1961.

Table 4 brings out the significant adjustments in the shares of cultivators and workers in organised industry.



Table 4 : Numbers and Shares of Male Workers in Agriculture and Manufacturing by Occupational Category : Haryana 1961 and 1971

Occupational Category	Number		Per cent of Agri./Mfg. Workers		Per cent of total male workers	
	1961	1971	1961	1971	1961	1971
1. Cultivators	1,234,587	1,261,054	88.8	75.9	58.2	49.6
2. Agricultural Labourers	156,388	401,132	11.2	24.1	7.4	15.8
3. Household Industry	146,517	82,166	59.0	32.5	6.9	3.2
4. Organised Industry	102,001	170,992	41.0	67.5	4.8	6.7
5. All Male Agricultural Workers	1,390,975	1,662,186	100	100	65.6	65.4
6. All Manufacturing	248,518	253,158	100	100	11.7	10.0
7. Total Male Workers	2,119,660	2,541,577	-	-	100	100

What are the implications of these two noteworthy alterations in the sub-sectoral shares of workers in the total work force?

It is our contention that these figures reflect a new situation in the labour market, in which much of the slack has now been taken out of the labour market on the supply side, both with respect to the supply of manpower likely to shift into the hired agricultural labour force, and with regard to persons previously engaged in low productivity jobs in the secondary and tertiary sectors. The 1981 Census may even record a drawing down of the proportion in paid farm employment, if job opportunities in the non-household manufacturing sub-sector and in the organised

tertiary sector have continued to expand at anything like the rates recorded during 1960's.

If this interpretation is correct, then it means that the intra-sectoral shifts of the 1960's were the prelude to the kind of inter-sectoral shifts the Haryana, and the Indian, economy needs.

Qualitatively, it should be noticed, the two major sub-sectoral changes are of the same kind. Both involve a shift out of self-employment into wage paid work. Had the tertiary sector occupations been appropriately sub-classified by the Census, it is reasonably certain that the same phenomenon would have been evident there as well.

Given the sub-sectoral figures, especially the nicely counter-balancing ones for household and non-household industry, it is tempting to jump to the conclusion that virtually all the occupational shifts took place within sectors. Analysis of household level data from the field survey, however, indicates that this is not the case. Occupational shifts took place in every conceivable direction. From the secondary sector many people moved from rural household industry into agricultural labour, and some shifted back to cultivation. From the primary sector, agricultural labourers as well as erstwhile cultivators, moved to tertiary sector jobs, to construction, and, to a lesser extent, into manufacturing. At the same time there was also a massive intra-sectoral movement from low productivity self-cultivation to the paid agricultural labour force in the high farm output growth regions. In short, there seems to have been

a great deal more occupational mobility, including cross-sectoral mobility than what is suggested by the net results recorded by the Census. Finally, it may be noted that the agricultural sub-sector did not experience a straight forward involution process, but rather a set of more dynamic occupational adjustments to opportunities both within and outside<sup>6</sup> the primary sector itself. More will be said on these points latter.

Given that Haryana's male population grew faster than the number of male workers, the proportion of the male population reported as workers fell significantly in Haryana, as it did also in India as a whole. However, in a neighbouring state, Punjab, the number of male workers and the male population seem to have grown at about the same pace. One result of this Haryana-Punjab contrast is, that while Haryana workers enjoy the highest income per male worker in India, the states' per capita income is slightly below that of Punjab.<sup>7</sup> The average male Haryana worker has more dependents, including non-working adult male dependents, than his counterpart in Punjab.

Table 5 : Male Workers as Per Cent of Male Population : Haryana, Punjab, and India : 1961 and 1971

State	Worker Rates	
	1961	1971
Haryana	52.17	47.27
Punjab	53.00	52.82
India	57.08	52.48

<sup>6</sup> The field survey asked specifically about persons who had been members of cultivating and agricultural labour households within the previous five years, but who had left to take up 'outside' jobs. Most had migrated to a place within Haryana, to take up jobs in construction, trade, or transport, a few had become clerks or joined a profession such as teaching, or compounder in a clinic, and a few had become industrial workers.

<sup>7</sup> The growth rate of per capita income in Punjab was 3.10 per cent compound; in Haryana it was 3.04 per cent.



More important than this however, is the combined impact of sectoral output and sectoral employment growth rates on male worker productivity. The growth rate record is presented in table 6 below. The outcome in terms of the value of sectoral product per male worker is given in table 7.

Table 6 : Compound Growth Rate of SDP Male Workers, and Male Worker Productivity, by Sector : Haryana and India 1961 to 1971

Description	All Sectors	S e c t o r		
		Primary	Secondary	Tertiary
1. <u>Haryana</u>				
i. SDP	6.10	4.89	8.89	7.14
ii. Male Worker	1.83	1.91	0.47	2.43
iii. Male Worker Pro- ductivity	4.17	2.98	8.42	4.91
2. <u>India</u>				
i. SDP	3.46	1.95	4.85	4.80
ii. Male Workers	1.44	1.80	0.31	0.88
iii. Male Worker Pro- ductivity	2.00	0.15	4.54	3.92

Table 7 : Value of Sectoral Product Per Male Worker At Contrast 1960-61 Prices : Haryana and India - 1961 and 1971

Sector	Haryana		India	
	1961	1971	1961	1971
1. Primary	1094.31	1459.92	792.04	804.44
2. Secondary	1380.52	3087.48	1674.68	2606.00
3. Tertiary	1208.83	1895.05	1626.35	2384.25

What we see in these two tables is, first, that the growth rate in employment was fastest in Haryana's tertiary sector, slower in the primary sector but still well above the growth rate of employment in all sectors combined, and exceedingly meagre in the secondary sector. It may be noted also, that no sector as a whole



witnessed employment growth rates as high as the rate of growth of male population in age group 15 to 60, which, was 2.48 compound.

Secondly, with employment everywhere expanding at rates well below the output growth rates, productivity per man rose significantly in every sector, but much more so in the secondary and tertiary sectors than in the primary sector. Thus inter-sectoral productivity disparities widened markedly.

Before going on to look at field survey evidence of a number of significant structural changes, in the pattern of demand for farm labour, and in the incidence of grave poverty, for example, a word should be said about the impact of rising productivity in all sectors, on the structure of demand.

The field survey did not go into this aspect specifically, but the visual evidence of recent expansion and diversification in rural villages was unmistakable.

Over the decade 1961 to 1971, there was in Haryana a remarkable drop in the number of very small villages, matched by a corresponding increase in large and very large ones. By 1971 more than three quarters of rural Haryanvis lived in villages with populations of one thousand or more. The details are given in table 8 below.

Table 8 : Haryana Village Size : 1961 and 1971

Population Size Class	Per cent of total number of villages		Per cent of total village population	
	1961	1971	1961	1971
1. Very small (under 500)	41.3	30.0	11.8	6.8
2. Small (500 - 999)	28.1	28.4	21.4	16.8
3. Large (1000 - 4999)	29.5	39.3	59.4	63.7
4. Very Large (5000 or more)	1.1	2.3	7.4	12.7

The increase in the size of the average village was accompanied by the introduction of a much wider variety of 'modern' goods and services. The new technology which raised farm and farm labour incomes, greatly stimulated the development of villages as market centres. There are new petrol and diesel pumps, cold storage buildings, and repair shops. Furniture shops, operated with the labour and hired workers have tended to replace the independent individual artisan. Many previously self-employed craftsman have been absorbed as employees into firms production, in more organised fashion; the same goods or close substitutes for what had been produced by cottage industry before. In many establishments power driven machinery has replaced some of the hand-operated equipment used formerly. The number of retail shops selling consumer goods has increased, and the range of articles for sale has greatly expanded. In the large villages the variety and quality of consumer goods offered is indistinguishable from that available in the smaller shopping centres of metropolitan cities. Some of the shops have modern plate glass store fronts, (with roll-down steel shutters for night security), and the local co-op may have recently installed a 'flush-out'. Thus there is ample evidence that the decade's rural development has not only been sufficient to absorb an increased absolute number of workers in agricultural occupations, it has also produced a qualitative change in the sectors servicing agriculture. Enhanced per capita income have been accompanied by a shift in demand in favour of manufactured goods and 'modern' services.

To sum up; several facets of the Haryana experience provide a basis for some degree of optimism about prospects for future development. Pre-eminent among these is the fact that the employment growth rate in organised industry was so high. Given the rising demand for manufactured products, the much diminished importance of household industry and the likelihood that workers who have remained in this sub-sector are in more productive jobs than were those who abandoned it during the 1960's, the manufacturing sector as a whole may well record a significant rise in employment in 1970's and 1980's. Further if the tertiary sector employment growth rate of the 1960's was the net product of a fall in the number of low productivity households segment tertiary jobs, more than offset by the expansion of opportunities in the 'non-household' segment, then the following decades could witness a substantial improvement in secondary and tertiary sector employment. There is real hope then, that agriculture may be induced to release its lower productivity workers on a significant scale. This is particularly likely if the rate of growth of demand for hired agricultural labour falls, which appears to have been the case during the mid and later 1970's.

### Section III

#### Changes in Rural Age Structure, The Pattern of Farm Labour Demand, and the Incidence of Dire Poverty Among Landless Households

One of the disturbing features revealed by the population and employment growth rate figures discussed earlier, was that employment generally failed to expand at a rate sufficiently high to match the rate of growth of population in the age range



15 to 60. It is quite clear from visits to rural villages that a large chunk of the educated and semi-educated<sup>8</sup> rural population under the age of 25 want non-farm jobs and cannot get them.

However, demographic data from the field survey, suggests that we may have experienced this problem already in its most acute form. There is clear evidence that birth rates are falling especially in the more prosperous agricultural regions of Haryana.

It appears that until about 25 years ago, the rate of population growth among Haryana cultivation and landless households was pretty stable. About 1958, this growth rate accelerated sharply, peaking in the year 1966-67. Then the increase in the birth/survival rate stopped. Indeed, for every class except the landless labourers, the birth rate appears to have fallen, even under the extreme assumption that the existence of more than 21 per cent of all children under age 6 was not reported at all.<sup>9</sup>

Income data by land status category is not available for Haryana of the 1960's, but time series data on fertilizer use, farm investment and house construction all support the view that the bulge in the age distribution diagrams was caused by a sustained pre-Green Revolution improvement in incomes. However

---

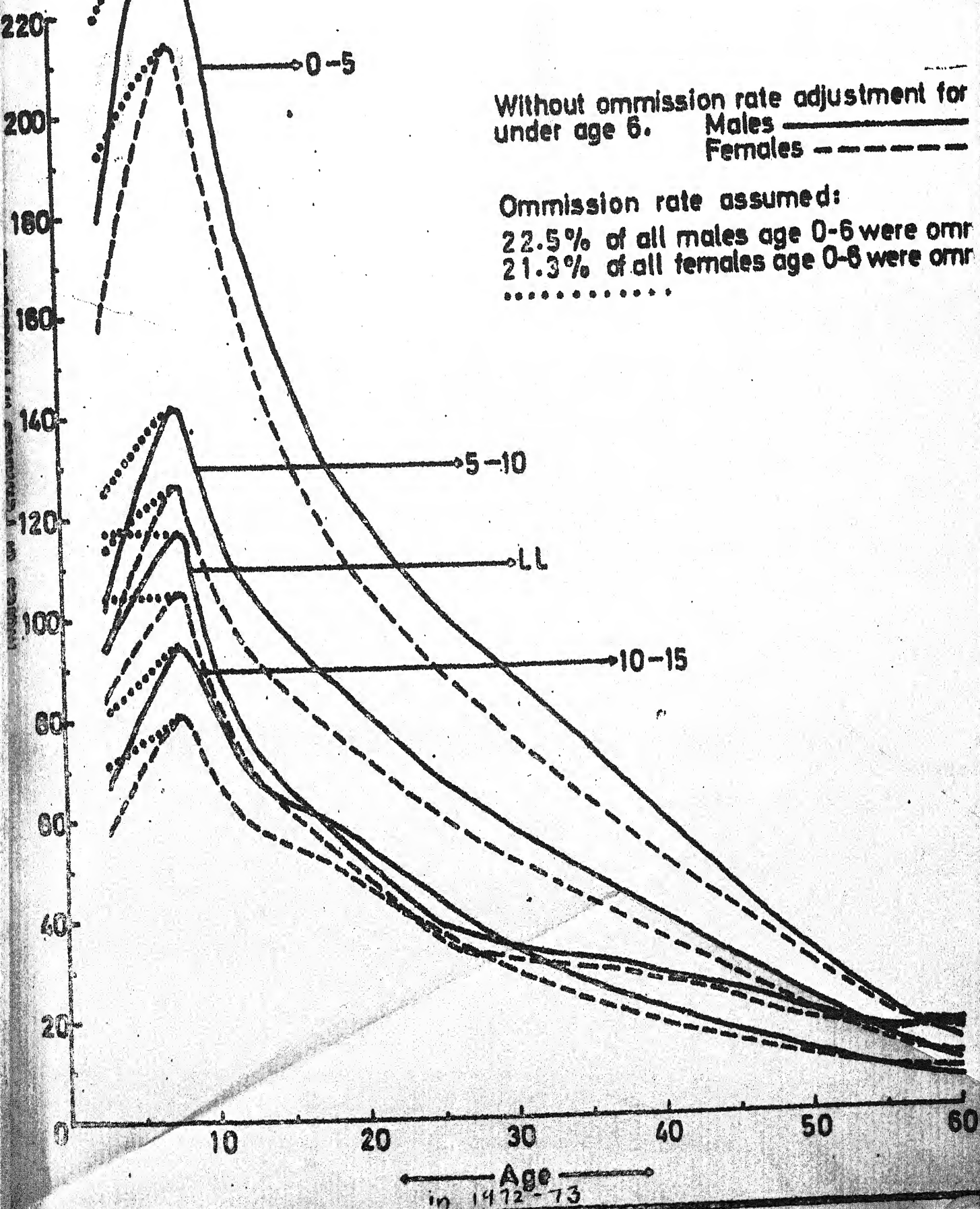
<sup>8</sup>The range "tenth class failed" to "B.A., third class" perhaps defines the most difficult category.

<sup>9</sup>Omission rates by sex were estimated by the 1971 Census for rural India as a whole, as follows :

<u>True Age</u>	<u>Males (%)</u>	<u>Females (%)</u>
0	17.0	15.2
1	22.5	21.3
2	10.4	7.6

Estimates were not available for ages greater than 2. In our graphs the dotted lines represent the number of children under 6 years, under the extreme assumption that the omission rates for each one year age group from 0 to 6 is as high as the Census estimate for those aged one year. Even the graphs fall.

# ALL HARYANA - FREQUENCY POLYGON



the graphs flatten in the year the new seed varieties were introduced. The post-Green Revolution period evidently ushered in a decline in birth rates,<sup>10</sup> in response to rapidly rising farm and farm labour incomes.

Comparing age graphs for landless households with those for landed households by acreage class, two features stand out. First, the decline in birth rates is much more evident for cultivating than for landless<sup>11</sup> households. Secondly, if the 'bulge' in the age graphs reflects pre-Green Revolution changes in agricultural prosperity, then the higher acreage classes were affected much earlier than the landless and 0 to 5 acre class.<sup>12</sup>

In short, the sustained pre-Green Revolution improvement in farm and farm labour incomes was associated with a population explosion which altered the age composition of its landless and small farm household population in favour of younger age groups. The youth 'bulge' hit the labour market in the mid-sixties, luckily at just the time when demand for farm labour was rising rapidly. From the 1980's onwards it will be less difficult for the expansion of job opportunities to keep pace with the influx of young workers into the labour force. By 1990, in fact, a smaller absolute

---

<sup>10</sup>While the 'bulge' was the product of some combination of an extension of health facilities, an improvement, in nutrition and higher birth rates, the end of the 'bulge' era must be attributed mainly to a decline in birth rates.

<sup>11</sup>However the graph for the landless falls unambiguously in the regions most favourably affected by enhanced post-Green Revolution demand for hired farm labour. In agriculturally backward areas, it does not fall at all, but merely rises at a slower rate.

<sup>12</sup>This comes out much more clearly on the separate, region level graphs. Because of problems of graph reproduction only the all-Haryana graph is included here.



number of young people may be entering the labour market than was the case during the decade 1960 to 1970.

During the decade of the sixties and in the early seventies, the rural labour market was able to absorb many more workers, for more days per year, largely because the demand for farm labour increased at an unprecedented pace. Most of the rural population bulge was thus accommodated, at enhanced real earnings levels, in agriculture itself. The growth rate figure of 9.95 per cent compound, in the number of male agricultural labourers, (in table 3), reflects this positive pull of better earnings opportunities in paid farm labour, and is not the result of pauperisation of the small peasantry. Indeed, the own-farm earnings of small farm households rose sufficiently that even with the entry of one male member into the full-time paid agricultural labour force, most of these households remained, on the main income source criterion, cultivating households, and not "agricultural labour households with land".

Unfortunately time series data is not available on this aspect. However, in Haryana cross section data for five agro-economic regions, provides an acceptable approximate alternative. Moving from north to south, the five regions are :

Region I, a high rainfall, hill and 'cho' area, covering much of Ambala district, growing both HYV wheat and some rice, commonly on the strength of rainfall rather than irrigation, using labour intensive methods of production. Acreage farm size here is smaller than anywhere else in the state. In terms of culti-

vators' incomes it is the second poorest region in Haryana.

Region II, the richest part of the state, covers Karnal and adjacent highly irrigated areas. This is the region to which the Green Revolution came first and consolidated itself most effectively. The tubewell irrigated HYV rice - HYV wheat crop cycle dominates everything else.

Region III, the second most prosperous area, runs in a broad west to east belt across the middle of Haryana, covering most of Hissar and parts of Rohtak district. Although 62 per cent of its total cropped area is irrigated, the 'quality' of irrigation is not as good as in Region II. Region III depends to a large extent upon canal irrigation which is not always available in the quantities and at the times wanted by the farmers. The practice of most farmers is to plant an irrigated highly remunerative crop such as cotton in one season, followed by a non-irrigated, must less remunerative crop, such as gram, for the second season of the crop year. Lower income per acre is in part compensated for by the fact that average farm size here is greater than in Region II.

Region IV, is the area next to Rajasthan. It is arid, poor, and technologically backward. For all practical purposes the Green Revolution has simply passed it by. Both cultivators and agricultural labour households eke out a miserable existence by the standards of every other region in the state.

Region V, is a mediocre farm income area, adjacent to Delhi. It includes parts of Rohtak and a large chunk of Gurgaon. It grows HYV wheat, but no rice or cotton, and little cane. The kharif season is dominated by bajra, jowar, and maize.

Table 9 brings out the cross section contrasts in demand for farm labour in Haryana as of 1972-73. It is evident that the prime Green Revolution region, Region II, uses more than twice as many mandays per acre as technologically backward Region IV. More important, Region II demand rose to three times the quantity of hired labour per acre employed in Region IV and V, and twice as many hired mandays per acre as Region III, which is the second most prosperous area of the state.

Table 9 : Annual Standardized Field Crop Labour Days Per Acre by Region and Type of Labour

Type of Labour	Region I	Region II	Region III	Region IV	Region V	All Regions
1. Total	39.4	47.1	26.6	20.6	27.1	30.5
2. Family	22.8	27.7	17.7	13.9	20.7	19.7
3. Hired	16.6	19.3	8.9	6.7	6.4	10.9

Leaving aside Region I,<sup>13</sup> the labour intensity figures reflect the percentage of total cropped area under HYV wheat and rise. That is, the Green Revolution appears to be directly responsible for the enhanced demand for labour, both family and hired in. However its impact on demand for hired labour has been much greater. This is what lies behind the Population Census record of a negligible growth rate in the number of cultivators and a dramatic increase in the number of labourers.

As the table below shows, this has dramatically altered the distribution of field crop employment among the two main sets of

<sup>13</sup>In Region I, much of the labour intensity is attributable to the eroded hills and plains topography, the fragmentation of holdings, and the uncommonly large distances between separated plots. The Region IV figures suggest that labour intensity may be "sticky" in the downward direction when the value of output produced per household is exceptionally low.



of households engaged in it. While the share of the landless in all labour days supplied is greatest in the two regions using the most labour days per acre, (Regions I and II), at the same time the share of the landless in hired out labour has been reduced by the large scale entry into the paid labour force of landed household members in the three regions where the Green Revolution has made the most headway. Of the hired labour in Regions II, III and V, upwards of 25 per cent is now supplied by landed households. This was not the case a decade earlier.

Table 10 : Household Origin of Field Crop Labour Supplied by Region

Region	All Labour Supplied				Hired out Labour Supplied	
	Supplied by Landed			Supplied by Landless	Supplied by Landed	Supplied by Landless
	Unpaid Family (%)	Hired Out (%)	Total (%)	Hired Out (%)	(%)	(%)
I	53.5	5.0	58.5	41.5	10.8	89.2
II	59.0	10.3	69.2	30.8	25.0	75.0
III	66.7	11.1	77.8	22.2	33.3	66.8
IV	73.0	4.2	77.2	22.8	15.5	84.5
V	75.9	6.1	82.1	17.0	25.5	74.5
All Regions	64.8	8.8	73.7	26.3	25.1	74.9

This enhanced supply of wage labour from landed households appears to have altered markedly the distribution of their field crop labour time as between unpaid family labour and hiring out. In Regions II, III and V, hired out days now constitute the majority of all field crop labour days supplied by households cultivation less than 2.5 acres. Only in the two regions least affected by

the new technology is the bulk of labour time allocated to work on the households own holdings. Note also that in the prime Green Revolution region, the incidence of labour days hired out extends into the 10 to 15 acre class.

Table 11 : Of All Standardised Field Crop Labour Days Supplied by Landed Households, Per Cent Which are Hired Out Days, by Acreage Class and Region

Acreage Class	Region I	Region II	Region III	Region IV	Region V
0 - 2.5	47.1	67.2	80.8	31.1	55.7
2.5 - 5	20.9	19.9	23.4	9.4	11.4
5 - 10	-	9.9	2.8	2.9	-
10 - 15	-	4.8	-	-	-
15 or more	-	-	-	-	-

However despite their relatively heavy commitment of labour to the hired labour force, the small acreage operators in Haryana, still get fewer days field work per household than households in higher acreage categories, and far fewer days work per household than the landless.

Table 12 : Per Household Supply of Total (Unpaid Plus Hired Out) Field Crop Labour Days by Land Status and Region

Land Status	Region I	Region II	Region III	Region IV	Region V	All Regions
Landless	463.6	404.0	320.5	302.1	173.7	339.6
0 - 2.5	49.6	141.7	141.2	51.4	53.5	94.6
2.5 - 5	132.3	174.4	178.1	101.9	109.4	144.8
5 - 10	194.0	290.8	305.2	118.0	206.9	236.5
10 - 15	311.0	485.4	191.1	133.3	289.7	265.7
15 or more	456.5	506.7	311.5	306.9	366.5	364.3

It is obvious from the above table that there is good reason for the slow rate of growth in the number of male cultivators and the spectacular growth rate in the number of male agricultural labourers. The latter are getting far more days of field crop work per household. A secondary reason for the low figures for landed households, is that the allocation of unpaid family labour as between field crop and non-field crop operations, has changed in favour of dairying and animal husbandry activities. Thus the small farmers are not quite so badly off in terms of work opportunities as their field crop days record might suggest. However as their incomes from all sources are below those of the landless set in the technologically advanced parts of the state, further shifts out of cultivation, as a main occupation, should be anticipated.

Employment policy-makers also need to take serious note of another aspect of this change. You can no longer argue on grounds of labour absorptive capacity that some advantage stands to the credit of very small farms. Table 13 shows that the labour intensity advantage of small holdings has vanished wherever the new HYV seed technology has made any headway at all. The only region which still exhibits the traditional inverse relationship between farm size and labour inputs per acre is arid Region IV. In all other regions, as much or more labour per acre is used by even the very biggest acreage category, than by the 0 to 2.5 acre class, and a conspicuous gap now distinguishes the 2.5 to 5 acre group from this bottom acreage category.



Table 13 : "Labour Days put in per Acre by Acreage Class and Region" (Standardised Total Mandays per Acre)

Acreage Class	Region I	Region II	Region III	Region IV	Region V	All Regions
0 - 2.5	24.2	38.7	23.6	31.7	21.9	28.9
2.5 - 5	33.4	48.4	40.6	26.4	31.3	37.1
5 - 10	33.2	46.9	44.5	16.8	33.4	36.3
10 - 15	37.1	52.5	20.1	11.7	26.7	27.5
15 or more	46.6	45.8	23.0	22.8	24.3	28.9

Finally a word should be said about the impact of activity diversification on the incidence of grave poverty among landless households.

Despite the fact that the typical landless household in the more progressive parts of Haryana earns more than the small farm household, their per capita incomes typically fall below the poverty line.<sup>14</sup>

Table 14 : Per Cent of Persons Below Specified Poverty Levels : Landless Agricultural Labour Households 1972-73

Specified Poverty Level in 1961 Prices	Region I	Region II	Region III	Region IV	Region V
Rs. 10	35	33	14	35	7
Rs. 15	67	60	41	68	59
Rs. 20	88	77	62	83	71
Per Capita Income 1972-73 (Rs.)	Rs.384	432	398	298	370

Moreover, the relatively high per capita income levels of Regions I and II are associated with worse per person poverty than

<sup>14</sup> The 1972-73 equivalent of the 1961 Rs.20 per month norm was Rs.523.20.

the lower per capita figures of Regions V and III respectively. Second, there is something decidedly special about Region V.<sup>15</sup>

For the usual poverty lines of Rs.15 or Rs.20, grave poverty in Region V is less common than anywhere else but Region III, and the proportion earning less than Rs.10 per capita is lower than in any region.

This is exceedingly important evidence of the beneficial results of occupational diversification within landless labour households. Specifically dairying and non-agricultural wage earnings in Region V combine to reduce the incidence of dire poverty in this region, better than the heavy reliance upon agricultural labour earnings characteristic of the source of income pattern of 'rich' Region II. Reference to tables 15 and 16 below, suggests that the same phenomenon operates effectively in Region III but to a lesser degree than in Region V.

Table 15 : Mean Income of Landless Agricultural Labour Households by Source (Rupees)

Income Source	Region I	Region II	Region III	Region IV	Region V
1. Permanent agricultural labour	988	1134	626	115	49
2. Casual agricultural labour	580	797	794	693	586
3. Permanent labour in dairy sideline	-	50	142	-	67
4. Total farm labour earnings (sum of 1 to 3)	1569	1981	1563	809	701
5. Non-agricultural wages	209	177	352	308	618
6. Self-employment, household industry (gross)	99	26	20	57	22
7. Dairying, sale of animal labour and other agricultural sidelines (gross)	350	489	656	460	991
8. Total Net Income*	2145	2590	2274	1608	2014

\* Depreciation, mainly on animal stock, and paid out costs have been deducted from gross income.

<sup>15</sup> Sen's 'P' measure applied to individual persons per capita income gives the following results : Region I, .467; Region II, .433; Region III, .306; Region IV, .472; and Region V, .321.

Table 16 : Per Cent of Landless Households Having Specified Sources of Income

Income Source	Region I	Region II	Region III	Region IV	Region V
1. Permanent Agricultural Labour	61	59	38	13	6
2. Casual Agricultural labour	85	83	82	68	79
3. Permanent sidelines labour	-	7	7	-	5
4. Non-agricultural wages	22	30	41	33	85
5. Self-employment and sale of home produced goods and services	6	2	7	8	1
6. Dairying and other agricultural sidelines	28	52	69	58	46

Thus the main finding of this last section is that occupational diversification is so effective in putting a 'floor' under landless household incomes in Haryana, that even in relatively low average income areas, there is less grave poverty among the landless than in regions with much higher average farm labour and total income, but less occupational diversification.

#### Section IV

##### The All-India Perspective and Some Implications

In India as a whole, the 'perverse' proportionate shift into agricultural occupations,<sup>16</sup> combined with the negligible rate of growth in primary sector male worker productivity (0.16 per cent), certainly constitutes ground for believing that self-limiting factors are at work. The existence of states which suffered negative rates of growth in agricultural worker productivity,<sup>17</sup>

<sup>16</sup>In 1961, the primary sector's share in total male workers was 67.98 per cent; in 1971, 70.30 per cent.

<sup>17</sup>Negative rates of growth in primary sector male worker productivity were recorded in Andhra Pradesh (-.41), Bihar (-2.50), Kerala (-.72), Maharashtra (-2.82), Tamil Nadu (-.80), and West Bengal (-.26). Uttar Pradesh recorded a zero rate of growth.



obviously reduces the prospects for employment expansion in other sectors, based on the stimulation of effective demand for industrial goods and modern services. One question is, how much of India's total resources should be devoted to stemming the decline in farm earnings in such states - on humanitarian grounds, and in view of competing uses for scarce resources?

At the same time, it is important to bear in mind that 'all-India' figures are averages which may cause people to overlook the possibilities inherent in the dynamic growth which took place in several regions. Corresponding to states like Bihar, Maharashtra, and Tamil Nadu, with spectacular negative rates of growth in primacy sector male productivity, are several states with equally spectacular entries on the positive side of the ledger.<sup>18</sup>

One possibility, which must be taken seriously, is that some regions may 'take off' and eventually carry the rest of the country with them, partly through the painful process of induced migration. The massive influx of Bihar from labour into Punjab and Haryana, and other population shifts into Assam, illustrate both the possibilities and the problems associated with this process. In Punjab and Haryana, the rise in real farm labour earnings was certainly dampened down by the immigrant labour supply during the 1970's. This caused considerable concern among the organisers of the landless farm labour trade union movement. But one good monsoon in Bihar in 1980, and the flow of in-migrants ceased almost altogether, with the result that real wages in Punjab shot up to unprecedented levels.

---

<sup>18</sup>The highest positive figures come from Assam (1.86), Gujarat (1.71), Haryana (2.92) and Punjab (1.57).

This suggests that even if you can only just maintain the level of output per worker in agriculture in backward regions, migration is automatically restricted to levels which can be absorbed by the economies of more rapidly growing states. In the latter, the rising output per worker may then be able to give the required 'push' to industrial and tertiary sector development.

This leads to the question whether the dynamic growth process of states like Haryana, really did initiate the kinds of shifts required for sustained development of at least the most rapidly growing regions. After all, it is found that, even in the fastest growing state in India, the sectoral output shares changed in the 'right' direction, but the 'appropriate' shifts in the occupational structure did not take place.

The evidence from Haryana suggests that an increase in the share of agricultural labourers in the work-force is by itself no cause for alarm. The same applies to the decline in the share of household industry. Both may reflect a new situation in the labour market, in which much of the slack has been taken out on the supply side, both with respect to the supply of manpower likely to shift into the hired agricultural labour force, and with regard to persons previously engaged in low productivity jobs in the secondary and tertiary sectors. If this interpretation is correct, then it may mean that the intra-sectoral shifts of the 1960's were the prelude to the kind of inter-sectoral shifts the Haryana, and the Indian economy need.

Given that per worker income in all sectors rose rapidly, and in agriculture among the landless labourers as well as among the cultivators, the Haryana evidence of a widening of the market for products industry and the modern service sector is hardly surprising.

The fact that, even in this context, employment generally failed to expand at a rate sufficiently high to match the rate of growth of population in the age range, is on the face of it, disturbing. Detailed demographic data for landless and cultivating households, however, shows that the rapidly rising real incomes of the 1960's induced a distinct drop in the birth rate - even among the landless in the more prosperous agricultural regions. From the 1980's onwards it will be less difficult for the expansion of job opportunities to keep pace with the influx of young workers into the labour force.

Further more, it can be argued that the process of shifting workers out of Haryana agriculture has begun, at the cultivators end of the 'agricultural workers' spectrum, if not with respect to hired farm labourers. Not only did the share of cultivators in the entire male work force fall, as agricultural output rose, simultaneously employment in organized manufacturing grew at more than twice the rate of increase in the total male population aged 15 to 60, and at more than three times the rate of growth of all agricultural workers combined.

Thus there were plenty of self-sustaining growth factors at work during Haryana's 'development decade'. To the extent that



they were in fact reproduced in the other rapidly growing states of India, the stage may now be set for a growth strategy which among other things, envisages an eventual shift of population from low growth regions with meagre growth prospects, into the areas which have the capacity to absorb them productively.

The very idea is likely to be unpopular. It amounts to the same kind of policy already adopted with respect to agriculture in the years of the IADP programme. Regional disparities would certainly widen for some time in consequence.

However it does not amount to simply giving a further boost to regions which are already in the lead. For some areas such as Bihar and parts of U.P., the carrying capacity of the land can obviously be vastly improved. Water is available, the necessary investment has just not been made. For the genuinely waterless regions such as parts of Rajasthan, unless there is an unexpected break-through in dry land farming, the possibility of adopting a long term policy aiming at shifting people out has to be taken seriously. For this to work, the states with the demonstrated, or probably potential for 'taking off' must be regarded as the ultimate destination of a part of the population born in backward states with poor prospects for development.

(4)

THREE QUESTIONS ON THE DEVELOPMENT STRATEGY

THEME

P.R. Brahmananda

1. A development strategy is specified by (a) the choice of a scheme of priority to objectives, through time, with room for a sequential change in the priorities, (b) the choice of an economic model and its variants to achieve the above through time, and (c) a set of policy frames to implement the 'plans' that flow from (a) and (b).

2. The sequential specification of sets of objectives, hierarchically ordered, has to keep in mind the emerging needs of the community over a reasonable time-span ahead. These needs may be both felt and unfelt; to the extent these needs overstep the capacity of any strategy to satisfy them, the needs themselves will have to be reappraised. They will have to be toned down currently and through time. A strategy which allows needs continuously to outstep feasible attainability causes an explosion of rising unsatisfied aspirations and tends to lead to violent clashes between interests; it may also lead to uncontrolled inflations and a growing 'black money' system.

3. The chief problem is here one of visualising in advance the highest feasible growth rate we can obtain through time and of the possible rate(s) at which demands from different regions, classes and groups will grow. If the aggregate



result of the later exercises leads to a set of desired growth rates which are all in excess of the set of feasible growth rates, there has to be a reduction of the 'aspirational set' of rates; here there is a choice, 'aspirational rates' of some groups or classes or regions will have to be damped below of some others. There is therefore an implicit assumption of willingness and ability to transfer/retransfer the natural gains of postulated development.

4. Any strategy which cannot come to groups with the above issues cannot be deemed to be a 'viable' strategy. The crucial questions are as to (a) whether we have been able to place the sets of objectives in the manner a strategy requires, (b) whether these sets are internally consistent and the sequential sets consistently follow one another, (c) whether the aspirational growth rate flowing from the above has exceeded the feasibility, (d) whether we have realized the extent of disharmony due to (c) and due to our inabilities at implementation and (e) whether we have been able to comprehend the need for a graduated whittling down of aspirational growth rates of different constituents of the community. The greatest complaint we can level against our 'development strategy' is that it has released an aspirational growth which is way above the highest feasible rate attainable by the model and its variants adopted. The consequence has been a political atmosphere of continuous confrontation among groups which is



bordering often on civil war conditions. We do not seem to have realized the constraints on any development strategy. These come from (a) limitations among from scarce physical and natural resources, (b) Diminishing returns in the process of exploitation of above, (c) excessive and continuously growing pressures everyday due to population factors on the use of resources primarily for survival including defence needs and (d) limited help from the sphere of technology to overcome specific bottlenecks. Lack of timely attention to these factors has severely vitiated our development strategy.

5. Let me now come to the second problem. Given the objectives of development, have we gone about choosing the right sort of economic models and model-variants to achieve the objectives. In our frame, the choice of models flows from the choice of objectives. The model can be inappropriate to the objectives; the model also may have inconsistencies within. There have been two models competing for attention, the Mahalanobis model and its variants and the wage-goods model and its variants. Historically we accepted the former. But the physical achievements have been below the targets and these further have little to do with the objectives. Could the wage-goods model have helped better? Can it now help better? How do we form the basis of a choice between the two? Given the need of high output and high employment growth with redistributive provisions the wage-goods strategy would have been superior. Also on the score of wider self-reliance. But we went on a different road. The M-model could not, and

cannot, yield the objectives at all !

6. Given the model(s) to what extent have we chosen the policy-frame appropriately. The issue is one of implementability, points of intervention and types of intervention. Did we have, do we have, enough policy instruments to make a policy-frame? How has corruption and nepotism affected the ability of the instruments of action? Should we go over to a less controlled system? Should we operate only through macro-economic instruments?

7. Looking back at our experience of 3 decades of planning all the above problems need a fresh discussion. Have we failed on all the three scores? If so why? Can we rectify the situation? How and how soon?

8. The Indian economy's annual average growth rate of real national income has been so far around 3 to 3.3 percent per annum. Though the permanent saving to income ratio has risen from 7 percent in early fifties to around 14-15 percent currently, the incremental capital-output ratio has gone up from around 1.8:1 in the 1st Plan to above 5.4:1 during the fifth plan and is currently close to 6.0:1. The gap between exports and imports has risen phenomenally; short-term self-reliance has now been given a go-by. The below-poverty-line proportion has remained virtually constant at about 50 percent and the proportion of overall unemployment seems also to have remained constant. The economy's population growth rate has

doubled. The system has managed to avoid famines but exposure to ravages of natural calamities has continued. The share of Government in gross expenditure has gone up to above 30 percent. But we are reputed to have a rather inefficient system of administration. The political process is itself sharing 3 to 5 per cent of GDP but system's exposure to local instabilities is rising. It is the future that is the worst cause of worry.

9. Forster in his 'Passage to India' implied that in India objective discussions on objective matters are often difficult. Such discussions should be easy if we keep out great personalities from our discussion or accept that they can go wrong, without implying any personal malice.

18-2-1981



(5)

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

AN ALTERNATIVE STRATEGY OF DEVELOPMENT OR REFORM  
WITH CHANGE OF PRIORITIES

by  
K.K. Das Gupta  
Gokhale Institute of Politics & Economics  
Pune

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981

(5)

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

AN ALTERNATIVE STRATEGY OF DEVELOPMENT OR REFORM  
WITH CHANGE OF PRIORITIES

by  
K.K. Das Gupta  
Gokhale Institute of Politics & Economics  
Pune

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981

## An Alternative Strategy of Development or Reform with Change of Priorities

---

A.K. Das Gupta

When the nineteenth century was drawing to a close Lord Kelvin the celebrated physicist declared on the state of physical science that it had reached the highest pinnacle of perfection and the only task of the physicists was to correct their results at the sixth place of decimals. The following lines are not meant for those who believe that in the case of our science also what remains to be done is to provide more precision only in the arithmomorphic domain of economic behaviour.

In the recent past, the nature and process of development of underdeveloped countries have attracted serious attention of economists and policy scientists of various persuasions. Developmental strategies of many of the countries of the third world have been examined by researchers and policy makers, constraints in the translation of these strategies into reality have been pointed out, achievements or lack of them have been analysed and explanations have been offered. The causes of persistent maladies have been diagnosed or to be precise, attempts have been made in this regard, India being no exception. Understandably the efforts did not stop merely at that. As is well known, therapies have been suggested to cure economic ills some leaning on a utopian or romantic Anschauung for transformation consequently unable to be put into operation, some, in spite of their cloak of pragmatism, when put into action were found to be inadequate to meet the requirements of change, India being no exception again. Therefore, the



given situation prompted and enthused - able minds to endeavour for identifying a genuine **path**, but as experience proved to be it became an extremely onerous task.

The purpose of this paper is to examine a few paradigms explaining the roots and process of underdevelopment of backward countries that have relevance to India. At the same time an attempt has been made to understand whether a complete change in the strategy of development pursued so far is necessary or some broad reforms are called for entailing a change in the order of priorities in our planned programme of economic development. As will be evident, in this exercise, a few methodological questions relating to the conceptual framework that is used as a guide to economic transformation has been discussed. Some references have been made of ideas and policies that emerged in some countries as a necessity in a historically specific situation for a better understanding of the needs of reform in our developmental programme. The assumption of this paper throughout is the legitimacy of the given institutional structure, broadly speaking.

## I

A very interesting and much discussed paradigm is the one which brings into the fore 'metropolis-satellite' or 'centre-periphery' relations for an understanding of the phenomenon of underdevelopment of erstwhile backward countries. The expression 'erstwhile' has been used purposely to indicate that the degree of backwardness has changed over time in one sense of the term. More on this later. In the historical analysis attempted by Frank<sup>1</sup> there is a clear attempt to posit the essence of 'primitive

accumulation' that took place to make the developed economies developed at the expense of some nations' economic development. The consequence was development for a few and lack of development for the rest. As is well known, in Frank's study, there is a further examination of the class content in both the centre and the periphery. As a result, we have a centre at the periphery and a periphery at the centre. The centre at the periphery, which is nothing else than the bourgeoisie within the geographical and political boundary of an underdeveloped region which by the very logic of its emergence becomes a compradore bourgeoisie. By the same token the aspirations of this compradore bourgeoisie become linked with those of the bourgeoisie at the centre, which is that of domination leaving the periphery in a state of perpetual, dependence. So, the 'periphery' at the periphery have to face a two pronged exploitative onslaught, one by the centre itself to establish and prolong its hegemony and the other by the endeavour of the 'centre' of the periphery for obtaining gains for itself in spite of losses due to dependence. Therefore the 'centre' at the periphery becomes a 'class for itself' in the opposite sense. "The exploitation and development by the one part result in and are accompanied by the development/underdevelopment in the other part. Although these lead to a regional concentration of development and underdevelopment, these also develop, developed sectors in underdeveloped regions and underdeveloped sectors in developed regions as the products of the same process of uneven capitalist development".<sup>2</sup>

In this paradigm an all embracing world capitalist system encompassing all the institutions and including the totality of human elements has been envisaged by

assuming away any sort of dualism inside any segment of the world system. In the context of such a world view what possibly could be a developmental path for the underdeveloped region? Could there be some measure of piece-meal amelioration for the vulnerable section of the economy or the society? The answer is categorically in the negative according to the philosophy of change of the centre-periphery theorists. If partial 'social engineering' to use a term of Karl Popper is not possible to seek solutions within a given institutional framework would a revolutionary overthrow of the present system in a backward country be the first item in the agenda in the struggle of masses for social change in such a country? According to the foremost theoretician of centre-periphery model, the answer is both 'no' and 'yes' at the same time. The statement needs some clarification. On the one hand it is argued that whatever form we take in its historical perspective whether it is mercantilism or colonialism or industrial or financial capitalism or imperialism each and every phase with overlapping moments if any, is an integral part of the world capitalist system historically viewed. Therefore attempts at doing away with underdevelopment entails destruction of this system as a whole. Without further qualification with the given premisses, the statement becomes a tautology, and smacks of a philosophy of "absolute determinism". Side by side the same author argues, "any 'development' policy will therefore surely and necessarily be inadequate if it rests on the supposition that underdevelopment can be eliminated in the peripheral area in question eliminating 'pre-capitalism' or 'feudalism' and substituting capitalism instead - that is, more of the same capitalism which caused the underdevelopment and now maintains it".<sup>3</sup>



Two very important issues emerge in this connection. Firstly, it is admitted that a country in itself has the potentiality of revolutionary transformation and would not have to wait for the destruction of world capitalism and by implication could be an additive element in the process. Secondly, there is an overt rejection of what is called a necessitarian path to societal change from one mode of production to another. Frank is quite categorical in contesting a particular Marxist opinion mostly in vogue in the pre-second war days which rested on the inevitability of a society traversing a capitalist path. One could recall Lenin's call for a 'non-capitalist path of development' of backward regions of Soviet Central Asia in his celebrated 'April Thesis', the roots of which could be traced in the famous formulation of the celebrated Russian thinker N.G. Chernyshevskii of the Narodnik School who had held the view that under favourable conditions a society may be able to by-pass a logical moment, i.e. capitalism in its march to socialism. The main point of this argumentation is that Frank's thesis, albeit an important dimension of it has important contours for preparing the basis for the requirements of a transformation. But as will be pointed out later, an alternative strategy or a changed strategy is by any token not a strategy of revolutionery struggle.

An argument somewhat controversial needs some examination. The subject refers to the well-known theory of underdevelopment due to differences in the organic compositions of capital and labour between different sectors within an economy or between different countries in the international economic relations. As is well-known, a higher organic composition of capital reflecting a change

in value terms, the technical composition of capital, that is, the proportion between means of production (constant capital) and live labour (variable capital) indicates higher productivity of labour due to higher level of technology. This is a situation in which the attempt is made to augment relative surplus instead of absolute surplus if one accepts Marx's formulation. The process itself by the very logic of a capitalist mode of production or a social formation with this mode having the dominance is bound to generate, a surplus labour. Hence the validity of Marx's famous 'Absolute General Law of Capitalist Accumulation'. If one accepts the notion of organic composition of labour as Emmanuel suggested, the low skill/low wage dominated sector is dominated by high skill/high wage sectors, hence an unequal exchange in a similar fashion as can be expected in exchange between branches and sectors with varying degrees of organic compositions of capital. This inequality could be remedied if and only if a diversification takes place or is made possible of low skill/low wage sectors into high skill-high wage capital intensive sectors in the given institutional structure.<sup>4</sup> The other solution is a complete transformation of the society into a socialist society. This is the quality of solution offered by Emmanuel as the strategies to be adopted to get rid of underdevelopment. If we leave aside a discussion of the second solution, we are faced with <sup>the</sup> same problems as one encounters while providing a solution to underdevelopment in terms of transformation of the technological level from one with lower OCC to another with higher OCC because the process leads to the creation of an army of surplus labour. As will be evident from discussion elsewhere, this phenomenon per se

should not be cause for concern of such a degree as to make any endeavour of changing strategies of development redundant. It is interesting to recall in this connection the contents of the well-known controversy during the industrial debate of the twenties in the Soviet Union especially between Strumilin, the official economist of the first five year plan and Shanin, Maslov, Bazarov and Bernstein-Kogan. The arguments of the last four which in essence were directed against Feld'man as well could be summarised as follows:<sup>5</sup>

(1) A higher OCC based development follows a 'Criterion of delayed effect' and unless a high intensification of labour follows an increase of OCC, a further 'delayed effect' of the criterion would be a drastic fall in the rate of accumulation; and

(2) the scarcity of capital and the urgent need for employment in massive scales are constraints to such a strategy of development.

The historical experience has however shown that the first criticism was not valid to a sufficient degree whereas the second is as relevant to-day as it was five decades ago. Therefore, a strategy if it is realistic must have rooms for tackling the issues of technological development and the surplus population at the same time.

## II

An economist has aptly remarked, "while it may be presumptuous to argue that the 'myth of economic growth' has finally been exploded, it will nevertheless, be reasonably correct to point out that there is widespread concern among economists and policy makers about the utility of economic growth rates either as the single most



important indicator of development or as the objective of development and planning".<sup>6</sup> Under the circumstances one could feel a trifle satisfied if the adage "better late than never" appears to be reflecting the present state of psychology of economists and policy makers. But the total preoccupation of the economists and policy makers with economic growth alone cannot be explained in terms of wrong emphasis on one criterion instead of another or some such arguments.

The causes are much more deeper. One could be traced in the epistemology pertaining to economics of growth and the other in the objectives of growth policies pursued so far. The answer to the second can easily be found in the prevalent mode of production. To wit, the nature of growth in our country has clearly satisfied the criterion "growth for whom" in the particular mode meaning thereby that in the ultimate analysis it is the capitalist class and other strata who are ideologically close to it have not only been immensely benefited but to a great extent have emerged as powerful economic forces in this period of growth through or without planning. At the beginning of our era of planning the planners believed in the axiom that industrial development alone was the only road to general economic development including the development of agricultural sector as it stood at that time. There were simplistic notions about the achievements of our first five year plan. It was held that this plan created the precondition for industrial development because the achievements in the agricultural sector were akin to revolution reminiscent of the days in England preceding Industrial Revolution. What the optimists forgot was that this so-called

agricultural revolution in England was an important element in the primary accumulation for capitalist development. The consequent industrial development in India from the days of second plan could not either continue or maintain the 'revolution' in agriculture if there were at all any. One of the glaring defects of borrowing intellectual technology from other countries lie in what I call "The Fallacy of determination by analogy" which has been best explained by Nicholas Georgescu-Roegen in these lines. "As factual evidence we invoke the incontrovertible fact that industrialization did result in the over-all development of the South of the United States. But the ingrained outlook of the standard economist - that what is good for one country is good for any other - prevents us from noting first, that the South is part and parcel of the most advanced capitalist economy, and second, that the American farmer is not institutionally identical (or even comparable) to the Indian or any other peasant." <sup>7</sup> On the other hand, what Georgescu-Roegen calls. The "Fallacy of Industrialization Axiom" cannot be justified by bringing an analogy from the Soviet plan of industrialization. Because in the first place, the institutional structure was totally different from that of India and more importantly, the Strumilin model of development with "enlargement of technical infrastructure", "urbanisation" and "capital-intensive technology" as the main components contained a very important assumption, that is, the size of the consumption basket of the individual and magnitude of the social consumption for every member of the collective was almost the same. Apart from the property relation itself, this strategy was an extremely powerful weapon

against the emergence of a class of poor. In the absence of either of the conditions cited above persistence with a pre-occupation of maintaining a stable or increasing growth rate with rapid industrialization as its main contributing factor led no doubt to the present anomaly with which everybody is familiar. The situation has been very succinctly explained again by Georgescu-Roegen. "In fact," he says; "the greater the industrial development achieved by an underdeveloped nation plagued by a predominant, over populated, and disorganized agricultural sector, the stronger the evidence such a nation offers of the fallacy of the industrialization axiom. There the peasantry is still as poverty-stricken as ever - a passive gloomy onlooker at the increasing well-being of the exclusive circle that delights in the Square Dance of Effective Demand, which alone moves faster and faster with each day".<sup>8</sup> In case of India a casual glance at the Census figures of 1961 and 1971 reveals that rate of proletarianization and immiseration has increased over time even making allowance for ambiguity in definition. It is claimed by experts on demography that the 1981 census is likely to show a higher rate of immiseration. This fact alone confirms in case of India the Roegenian diagnosis.

The present situation which has warranted a rethinking about the strategy of development of our economy is also the result of adhering to a positivist epistemology in economic science by our planners both economists and policy makers. In every plan and activities of growth in the given institutional framework the assumption was that if there was a programme of growth (of GNP for example) it could not be possibly of non-growth of any



other sphere. It is typical of the old Aristotelian logic of the excluded middle. But in matters of economic growth, since the experiences of numerous developed countries were historically given, the correct approach should have been the acceptance of the premiss that an event could be A (growth) and not-A (non-growth) at the same time. A typical example can be given in this regard : if rate of growth of GNP of a country is an indicator of economic development as many of us believe it to be, in a particular historical situation an increase in the rate of growth of GNP can be regarded as 'development'; at the same time it may be 'non-development' if we consider a situation when at the same time gap in the inequality of income is increasing or immiseration is becoming more pronounced.<sup>9</sup> Unless this dialectical nature of our science is properly understood and necessary measures taken to overcome the contradiction in any policy of development the results are bound to be one sided and considering the over all class structure of the society it is easy to imagine which side will be heavier.

Moreover as a legacy of the colonial past, our country inherited not only underdevelopment but also abject poverty and chronic unemployment. But the planning models of our country during the past three decades tried to solve the two festering sores of our economy i.e. poverty and unemployment at an abstract level. Hence the pronouncements and achievements had divergence of dangerous proportions between them because as Furtado has correctly pointed out it is necessary to demonstrate the explanatory effectiveness of a model as applied to historic realities.<sup>10</sup> It can be said further that not only explanatory effectiveness but also operational validity has to be examined

otherwise any strategy of development could be accused of starting with a 'zero level of history' which means that the given historical reality or to be precise, some very important dimensions of it are totally lost sight of. That has been the case with India.

### III

The necessity of rethinking about the nature of the development of our economy has arisen because, whether one admits or not, of gross injustice displayed in the distribution of income. As a result, as has been pointed out elsewhere a state of chronic poverty among a large section people of our country is visible everywhere. We are not at this stage interested in a sterile pursuit of the question of constraints in the measurement of the nature and extent of poverty because the phenomenon exists with indubitable certainty. Everyone is familiar with the poverty line below which it is estimated that about forty per cent of our population have been languishing. Further, this author suggested in the past of drawing a 'critical line of poverty' below which twenty per cent of our population lead a sub-human existence. Eradication of poverty therefore should be the first priority in our planned programmes of economic development. If one makes a critical analysis of the approaches of different plans of our country, one feature comes out with unfailing regularity, i.e. the absence of a clear voluntarist programme for combating the problem of poverty by the centre. In the absence of this very important requirement in the overall strategy of development and also because of the fact that social security as a philosophy of welfare for that segment of the population which is really in need of it, is

conspicuous by its total absence all our demarche's towards development have led to what French thinkers used to designate as "Pays economique", that is, proper development for one segment or class and underdevelopment for the rest. Perhaps it would not be an exaggeration to say that even by the standard of the third world, our country would stand deplorably low in the matter of social security.

From the arguments posited in earlier sections it is crystal clear that we are not in a position to redefine and reformulate our strategies of economic development to hasten the down fall of world capitalism as the centre - periphery or metropolis-satellite theories believe to be the only solution. If one believes with Marx that immiseration (die Ehrelendung) is a necessary condition (but not a sufficient condition) for social revolution, then ironically economists have to recommend<sup>for</sup> economic measures that would only increase the degree of pauperisation. This is nothing but utter negativity in the approach to a logic of transformation.

One important but belated assertion of a Club of Rome enthusiast has an important element of truth, that is no model or strategy of development is completely right or wrong in the general sense of the term. It was however, Niels Bohr who first presented this view in his celebrated 'Complimentarity Principle' much earlier. But, a model or strategy becomes right or wrong in social sciences as soon as one looks at it from a particular point of view or ideology in the broad sense of the word. Therefore all the models of 'Alternatives to Growth' theorists like Western Economic Model, Environmental Model, Socialist Model and Demographic Transition Model have only academic significance as far as our present universe of discourse



is concerned.<sup>11</sup> Because nowhere in the document cited, the imperative requirement of minimum welfare wherever it is of utmost necessity has been emphasized.

If we make a distinction between the quantitative and qualitative aspects of welfare the minimum requirement of an individual to eke out an economic existence belongs to the first category. The contention of this paper is that allocation of resources especially at the centre on this head should be the first charge in any economic plan. Consequently, the priorities have to be reversed. This does not entail in any sense abandoning the concern for growth and development as they are understood. Reversing the order of priorities may only change or reduce the rates assuming a lower outlay on developmental activities as a result of higher expenditure on minimum social welfare of the deserving segment of our population. Even this conclusion is debatable because Marx was very emphatic while analysing the rationale of accumulation in capitalism that the capitalists as a class when faced with the devil of<sup>a</sup> high cost of higher technology and deep sea of more taxation for supporting official pauperism would prefer the former because continuous accumulation is possible more in a condition when more relative surplus value is generated. Therefore, if a minimum social or public assistance through transfer of income ensures a condition for abolition of say child labour (as hired labour) considerably, and at the same time reduce the extent of exploitative employment in various unorganized sectors of our economy a condition which the socialist thinkers call "efficiency" would be established.

While commenting on the outcome of transfer of intellectual technology elsewhere it was argued that

adherence to only the precepts of growth and development of developed capitalist countries for our own development led to the "fallacy of determination by analogy" because this process assumed away the historically given realities. If we had, on the other hand looked for solutions for the problems inherent at a given point of our historical reality, with chronic poverty and economic insecurity of vast majority of masses as stark aspects of this reality, we could have identified one. "Traditionalism does not encourage innovation" a British social thinker remarks, "and looking back over the past century and a half to try and see the ways in which the concern of the state for the welfare of the citizens has changed we find all too often, that it was by modification and not by innovation that reforms were made. Until the 19th century the state showed little concern for the well-being of the majority of its citizens, but there was of course a direct interest, in making provision for the needs of the very poor. It could be argued that the Poor Laws constituted the first stage in the emergence of the welfare state, but whether or not this is its true origin, what is apparent is that many of the principles and practices used in the early Poor Laws have remained extant and have to a considerable degree dominated our approach to the welfare measures of modern times."<sup>12</sup>

In the absence of a tradition in our case we have to introduce innovation in the strategy of development. This is what may be called a 'voluntarist' as opposed to a 'gradualist' approach for tackling a task as onerous as eradicating poverty, which in the context of present discussion signifies absolute poverty. Historical experience unhesitatingly indicates that the point of departure

in social welfare measures has been what may be called 'poor laws'. At the operational plane such laws are put into practice through 'public assistance' by transfer of income.

Coming back to the subject of underdevelopment due to a wide difference in the 'organic compositions of labour,' even if we assume it to be an important cause, can the solution by shifting the lower composition to higher level be attempted? In other words, can a revolution in technology at the national plane be attempted, leaving aside the cost for the time being without at the same time making provisions for the population that would become economically redundant? Even assuming further that Schumacher's small but beautiful will be made to reign supreme in some branches of our economy to absorb such surplus population, as much as possible, a residue, with a sizeable number has to be looked after by the state, and hence the imperative need of 'Poor Laws' to cover all poor properly defined.

In this regard we have to answer a very intriguing question. Is not a policy of public assistance through employment guarantee or benefit guarantee (for those who are incapable, for various reasons, of accepting an employment) is at the same time a policy of strengthening the class content of the society in question or to be precise, of Indian society of the present. Is it not by the same token an expression of what in Marxist terminology called 'false consciousness'? Lukacs, the celebrated Hungarian Marxist dealt at length with an elucidation of this concept. He wanted to emphasize that economism as the guiding philosophy of working class struggle blunts the edge of revolutionary consciousness of this class. The



consciousness that unites the working force and prepares it for struggle for better conditions of work within the capitalist mode is mistakenly regarded as 'true consciousness' whereas a truly revolutionary consciousness should be termed that.<sup>13</sup> This position, as the present author understands, is not accepted by Marxists to-day without certain qualifications,<sup>14</sup> and in specific situations it is very difficult or rather incorrect to give rigid definitions of the nature of consciousness. In fact, in to-day's condition of the Indian economy, a concerted effort to include minimum social welfare measures for the vulnerable or the very poor segment of our population both in the rural and urban areas should be regarded as a reflection of a 'true consciousness' of both the intelligentsia and the masses struggling for the benefits whereas a surrender to the 'fait accompli' with the utopian dream of an ushering in of an all encompassing age of prosperity for all with the only assumption that one fine morning everybody has only to come out to join the revolutionary army to give a mortal blow to world Capitalism is a 'false consciousness' of the highest order. In the ultimate analysis both 'true' and 'false' consciousnesses have to be understood with an eye to the dialectical penumbra between the two.

Let us go back a century and a quarter. It was the period of ceaseless struggle of the working class for a normal working day in England. "The establishment of a normal working day is the result of centuries of struggle between the capitalist and the worker".<sup>15</sup> But a normal working day led to mechanisation and more accumulation. "Paradoxically then," an author states, "it would appear that labour indirectly aids the long-term accumulation of capital and strengthens capitalist social relations by

struggling for its own interest within the state".<sup>16</sup>

If a historically specific situation (in a broader sense) demands the fulfillment of tasks of economism for wider masses, then pushing forth those are categorical imperatives for all, economists being no exception. With the changed character of state in the fourth quarter of the twentieth century, a reformed strategy could be implemented in India in the shortest possible time provided the people whose opinions ultimately matter remove their blinkers to which obfuscate the vision of the reality.

REFERENCES

- 1 Frank, A.G. - Capitalist Development, OUP 1975, p. 84.
- 2 ibid., p. 12.
- 3 ibid., p. 98.
- 4 Frank, A.G. - Dependent Accumulation and Underdevelopment, London 1978.
- 5 Collette, J.M. - Politique des investissements et Calcul economique : L'experience Sovietique. Paris 1964, p. 50.
- 6 Joshi, B.K. - Is Economic Growth Relevant? Giri Institute of Development Studies Working Paper No. 25 Lucknow, p. 4.
- 7 Georgescu-Roegen, N. - The Entropy Law and the Economic Process, HUP 1971, p. 329.
- 8 ibid., pp. 329-330.
- 9 Das Gupta, K.K. - Nicholas Georgescu-Roegen and the Methodology of Economic Science - Artha Vijnana - June 1979, p. 43.
- 10 Furtado, C. - Development and Underdevelopment - University of California Press, 1964 - See Chapter One.
- 11 Meadows, Dennis L. (Ed.) - Alternatives to Growth I - Ballinger Publishing Co. Camb. Mass. 1977, p. 32.
- 12 Marsh, David C. - The Future of the Welfare State, London 1964, p. 34.
- 13 See his 'History and Class Consciousness'.
- 14 Roos, J.P. - Welfare Theory and Social Policy Helsinki, 1973, p. 35.
- 15 Marx, K. - Capital Vol. I - Penguin 1976, p. 381.
- 16 Gough, Ian - The Political Economy of the Welfare State London 1979, p. 55.



6

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

The Kaliyug Syndrome, Or The Ascent Of The  
Iatrogenic Systems Of Healing Modernity

by

Krishna Prakash Gupta  
Indian Council of Social Science Research  
New Delhi

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981

THE KALIYUG SYNDROME, OR THE ASCENT OF THE  
IATROGENIC SYSTEMS OF HEALING MODERNITY

Krishna Prakash Gupta

I

"Hear, Maitreya, an account of the nature of Kaliyug about which you have enquired and which is now close at hand.

"In this age, people by nature would not be inclined to observe rules governing their vocations and orders of life. Marriages will not conform to rituals, nor will the rules that relate teachers and disciples be in force .... Every text that people may choose would become a scripture for them; all gods will be gods to them that worship them; all orders of life will be common alike to all persons .... The minds of men will be wholly occupied in acquiring wealth and wealth will be spent solely in selfish gratification.

"Women will follow their inclinations and be ever fond of pleasure. Men will fix their desires upon riches, even though dishonestly acquired. Youths will disregard the rules of student-ship.

"The rulers, instead of protecting, will plunder their own people .... They will be of churlish spirit, violent temper, and ever addicted to falsehood and wickedness.... They will be of limited power, and will for the most part rapidly rise and fall .... The people of the various countries intermingling with them will follow their example.

"Wealth and piety will decrease day by day until the world will be wholly depraved. Then property alone will confer rank; wealth will be the only source of devotion; passion will be the sole bond of union between the sexes; falsehood will be the only means of success in litigation; and women will be objects merely of sexual gratification.

"Earth will be venerated but for its mineral resources; external marks will be the only distinction of the several orders of life; dishonesty will be the universal means of subsistence; impertinence and presumption will be substituted for learning; mutual assent will suffice for marriage; and fine clothes will pass for dignity.

"Thus in the Kaliyug shall decay constantly proceed until the human race approaches its annihilation".

(Vishnu Purana, IV:24:VI:1)

## II

There is now a widespread belief that with a certain judicious mix of resources and priorities, mankind can be trained to contain the growing discontents of modernity. That such a belief is entirely unsustainable on the grounds of both logic and available evidence is the central thesis of this paper, but before I press this argument further, I would like to start with an antecedent dilemma.



Personally for me there is something uncomfortably vicarious about the crisis-perception and the attendant search for, what is now already a cliché in a certain kind of social science literature, 'alternatives in development'. Confronted by the two kinds of Wests and their two kinds of pathologies, I am not quite sure whether the idea of 'alternatives' is a consensual concern, formulated and realized in an identical set of thought categories and semantic domain. Notwithstanding the apparently common concern with a set of similar-looking problems - such as declining growth rates, increasing inequalities and injustices, rapid depletion of energy sources - that generally informs this search for alternatives, this entire movement seems to be essentially Western in its conception, idiom and relevance.

There are at times courteous references to some peculiarly Asian ideas like those of 'non-violence' or 'cultural revolution' but these are no more than artful, even if unwitting, devices to create an illusion of partnership. The alternatives game is played strictly in terms of certain Western thought categories, and the participation of outsiders has become painless only because these categories have now been internalized by large portions of the Third World elites.

I am making these statements only because one often feels that one can talk of alternatives in a shared world of discourse, in terms of certain objectively verifiable facts, without in any way affected by any particularistic spatial or temporal attributes of this idea. This, I think, is simply not true. For the Third World, a search for alternatives is indeed necessary, even indispensable but in order to do this, if this is still possible, one

would have to clearly move beyond what is currently in vogue.

For what is currently in vogue does not seem to be some universally acceptable doctrine of world salvation but only a partisan ideology, arising and thriving only in one kind of West, pursuing somewhat sectarian concerns in the name of global issues, often deadening in this process the very sensitivities that it seeks to arouse, and resulting, even if in an unintended manner, in only strengthening the same self-destructive forces that it seeks to weaken.

This is perhaps an unfair indictment. But before I attempt to present supportive evidence, a condensed detour is at this point necessary to enquire into the historicity of the very idea of alternatives.

### III

The first modern incarnation of the idea of alternatives occurred with the introduction of the concept of 'social progress' in social science literature. This happened at a time when one kind of Western social scientists, weary of war and turmoil, began to look around for ways of reconstructing their social institutions on the presumed new foundations of reason and altruism. This was then projected as the only alternative, needed for saving a world of crumbling values. It was however exactly at this time when the other kind of Western social scientists were joyously celebrating the coming of the first stage of their social utopia. For them, the alternative was already there, and one only needed to accept and actualize its full potential.

This cleavage between the two kinds of West reappeared in the second phase which began with the world settling down with a doctrine of the two super-powers and a multitude of 'junior' nations, either in affinal relationship with their past masters or alone, hesitantly striving to forge an autonomous Third World identity. This new sense of power and majesty gave to the Western social scientists a new vocation : to work for the salvation of their under-developed Third World brethren. It was here that the one kind of Westerners discovered the paradigm of modernity : an overarching theoretical framework designed to transform the 'third-worlders' into the image of their own master model. Around the same time, the other kind of Western social scientists, using an altogether different terminology, came up with another "scientific theory" that also tried in its own way to altruistically lift the Third World nations from a lower to an advanced social formation, almost in close proximity with a presumed irreversible pattern, already successfully demonstrated in their own historical experience.

Somehow, the world did not quite unfold in the manner, foreseen in these two kinds of scientific diagnoses. Some Third World societies went on merrily modernizing without exactly duplicating the suggested Western versions of institutional change; some dared to evolve into a higher social formation almost in direct repudiation of its prescribed master model. Cracks also developed from within, and once again social science was pressed into service to suggest remedial cognitive devices to contain the crisis of faith in science and rationality - the very foundations of Western intellectual existence in contemporary times.



It is this broad context in which one must place the ideology of the 'alternatives in development' as it has currently become fashionable in the one kind of West. Born out of the exhausted promises of modernity, this ideology takes once again an inward look into its own world of dysfunctional institutions, and prescribes patient withdrawal from the malevolent processes of unbridled development.

The other kind of West does not see the crisis exactly in these terms. Still somewhat animated by its faith in the redemptive capacity of its own revolution, this kind of West dismisses this entire debate on alternatives as a bourgeois attempt to conceal the real crisis of the crumbling capitalist society. According to this formulation, this crisis can be comprehended only in terms of the central contradiction between the social mode of production and the private mode of appropriation that afflicts only the other kind of West. It is this contradiction that produces exploitation and waste, and the only alternative to it is a transition into the other higher kind of social formation.

There is no compelling reason for me to take sides in this highly partisan debate. Though largely westernized in my systems of thought and analysis, I still see very little to choose between the two kinds of West and their two kinds of crisis-perceptions. It does not require any special social science sophistication to see that this other kind of West, still hinged on its original vision of science and revolution, is not only suffering from chronic crises of its own making but is also slowly beginning to

reproduce the same pathologies in its own very different social setting that it decries in the other kind of West.

The only point that I wish to stress here is this : that the idea of alternatives is of sectarian origin and can be understood fully only in terms of certain specific cultural dilemmas of the one kind of West, becoming meaningful only in terms of its own peculiar historical experience. There is, if I may say so, something disturbingly archetypal about this idea, and though I would not pursue the thesis further, it seems tantalizing to suggest that it is in essence a reincarnation of the Judeo-Christian ethical prophecy that has in the past in some parts of the West raised its voice of protest to bridge the gap between human shortcomings and normative ideals. It seems to resurrect, on a different level, the recurrent Judeo-Christian tension of choice between the two cities and their two loves. There is no real solution to reconcile the flesh and the spirit, or in their modern variants, development and morality.

It should not be difficult to see how this kind of tension could have provided an important source for various early anti-modernization ideologies : the rejection of the acquisitive spirit of capitalism, the rejection of the industrial revolution and a fond hope to somehow live through somewhat primitive, cooperative and communitarian social existence. All this is now part of the one kind of West, and it is this kind of West that is now providing a new critique of modernity and a new ethic of alternative development.

## IV

In its present phase of development, the alternatives movement displays a certain colourful diversity of approaches and orientations. There are diagnoses and prescriptions galore, and the idea has caught on even with conventionally conservative establishment thinking.

In what follows, I would try to make a very brief and tentative structural analysis of the doctrine of alternatives in development.

The starting point of the idea of alternatives is a critique of certain contemporary expressions of modernity. At the lowest level, this critique picks up certain disparate items for attack: declining productivity, rising unemployment, depletion of energy sources, and the like. At an intermediate level, it widens the scope of attack by focussing on certain dysfunctional institutions in their totality : a political system that breeds an authoritarian ruling elite and an insensitive bureaucracy, an economy that thrives on the blind forces of market and self-destructive technological expansion, an education that cultivates prejudice and hierarchy, and a society that produces a homeless, anomic existence. At the highest level, the attack is conceived in global terms : an unjust world order that perpetuates and increases invidious international inequalities.

At each of these levels, the alternatives movement has also succeeded in formulating a corrective plan of action. Though these plans appear different, they are all inspired by a shared belief in the efficacy of human intervention. Through this



intervention, the alternatives movement has sought either to freeze the processes of development at appropriate levels, or to modify the direction of development in order to rectify its distortion, or to alter the entire course of development by suggesting a retreat into some more humane form of existence.

These strategies have now assumed the form of a gospel for the prophets of the alternatives mission. Quite often, the appeal is predicated on the time-tested motives of self-interest and mutual benefit. At times, the threats of an impending disaster are thrown in to invest the appeal with a dramatic compulsion. The scenario is rounded up by mini-hallucinations of things already happening in the desired direction of the preferred future.

## V

Like ethical prophecies before, this entire alternatives movement betrays a curious paradox : whatever is desirable in it is often not quite possible, and whatever is possible in it is often not quite desirable.

There is in this movement a clearly discernible messianic component that draws up the blueprint of a utopia without working out any specific strategy of transition. In this version, no attempt is made to provide a theoretical linkage between the crisis-ridden modernity and the preferred future. The unstated assumption seems to be that one has to somehow acquire a magical capacity to transcend the constraints of contemporaneity and actualize the potential that already inheres in one's social situation.

Such a prophetic mode is clearly harmless, and has already been transformed in most cases into a display of decorative dissent by an ever-obliging establishment. But the real danger of the alternatives ideology emanates from the less perfect solutions. It is here that this ideology has massively proliferated in the last one decade, and now merits a serious reappraisal.

The most attractive, and perhaps the most sinister, aspect of the doctrine of alternatives is a belief in the capacity of the nations to act in a spirit of enlightened self-interest. Almost every agenda designed to bring about a new world order, economic or other-wise, has been informed by this belief. Reduced to its bare minimum, such an alternative agenda has almost invariably pleaded for a subsidized transfer of resources from the advanced to the developing nations. Even groups of Third World countries have enthusiastically pressed for such an alternative, though the projected structural rearrangement is, in the ultimate analysis, wholly dependent on the 'grace' of the superior condescending powers.

Based as it is on a premise of unequal partnership, such a solution is unlikely to come about as the various quasi-abortive UN efforts already amply demonstrate, but even if it were to materialize suddenly by some inexplicable set of circumstances, it would only serve to strengthen the market economies of a few donor nations, giving a new lease of life to those very unjust inequalities that it wanted to fight all along. The end result would hardly be an alternative; the new remedial inputs would only further bolster the sickness of the present world economic system.

With minor variations, the same is true of the other 'practicable' alternative prescriptions. None touches the core of the crisis; none dares to disrupt the status quo.

One does not realize fully that modernity has not only produced black economies -- I do not know who coined this very racist adjective -- but also black politics, black laws, black religions, and black schooling systems. There are now parallel structures for each of these institutions, and the subterranean structures are more real and more powerful than the surface structures. Despite impressive improvements in the modern systems of information and communication, the free citizens of the modern world do not see for most of the time the invisible strings that reduce their hard-won volition into an act of unrehearsed pantomime.

Almost all the ugly and obscene manifestations of modernity arise because of these parallel black structures where the only operative principle is expediency. The legacy of Renaissance decorates only the surface structures of modern society; deep within, there are swelling scars of faithlessness and unreason.

The ideology of alternatives touches only the surface structures; it obviously cannot reform what it cannot see. Through its recurrent radical rhetoric, it even desensitizes us by providing an illusion of the coming salvation. Meanwhile, nothing changes and world inevitably continues to slip down the path of Kaliyug.

Is a devolution into Kaliyug, then, men's only alternative?



## VI

"Upon this subject, Maitreya, you shall hear what the wise Vyasa has related, as it is communicated truly by me..

"It was once a matter of dispute amongst the sages, at what age the least moral merit obtained the greatest reward .... In order to terminate the discussion, they went to Veda Vyasa to remove their doubts. They found the illustrious Vyasa, half immersed in the water of Ganges; and awaiting the close of his ablutions, the sages remained on the banks of the sacred stream, under shelter of a grove of trees. As the great Vyasa plunged down into the water, and again rose up from it, the sages heard him exclaim, "Excellent is the Kaliyug...". When the great Vyasa finished his bathing, ... he said to them, "on what account have you come to me?" The sages replied, "we came to you to consult you on a subject on which we entertain some doubt but that may be at present suspended; explain to us something else. We heard you say, "Excellent is the Kaliyug !" Now we are desirous to know why this was said....

"Being thus addressed by the sages, the great Vyasa smiled, and said to them, "Hear, excellent sages, why I uttered the words I did. The fruit of penance, of continence, of silent prayer, and the like, practised in the Kritayug for ten years, in the Treta for one year, in the Dvapara for a month, is obtained in the Kaliyug in a day; therefore, did I exclaim, "Excellent, is the Kaliyug....

"The sages then said to the great Vyasa, "The question we intended to ask has already been answered". ... Being thus freed from uncertainty, the sages then departed as they came.

"To you also, excellent Maitreya, have I imparted this secret, this one great virtue of the otherwise vicious Kaliyug".

(Vishnu Purana, VI : 2)

(7)

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES:  
THEIR RELEVANCE TO INDIA

The Relevance of Development Strategies for India

by

Shiva K. Gupta  
Giri Institute of Development Studies  
Lucknow

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981



## THE RELEVANCE OF DEVELOPMENT STRATEGIES FOR INDIA

Shiva K. Gupta

### I

In the mid-twentieth century, "structural escalation", the process whereby survival and progress with respect to other societies is seen to depend upon one's ability to expand one's control over the environment, has been evident in the precept or dogma of development. Early in the Industrial Revolution it was possible to distinguish developmental societies from under-developmental societies - that is, societies that were becoming hooked on expanding their control over the environment, from those that had not taken up the habit. In the middle of the twentieth century one's political philosophy made little difference, since development had become the opiate of the world's governments - India being no exception. Concepts about development vary from place to place; in the high-energy societies, population expansion is still in fairly high repute. The claim that the purpose of development has been to "better peoples' ways of life" should not obscure the fact that this is only one view of its purpose; that is not all that it does. Since many of the problems in the "ways of life" that need "bettering" are due to an earlier developmental philosophy, mercantile and industrial structural escalation, it rings untrue to claim that development is being done as a favour to the energy-poor peoples of the earth. In fact, it is the high-energy nations that promote the developmental dogma, because it is they who are converting most of the energy and think it is necessary for survival at their level of cultural

## THE RELEVANCE OF DEVELOPMENT STRATEGIES FOR INDIA

Shiva K. Gupta

### I

In the mid-twentieth century, "structural escalation", the process whereby survival and progress with respect to other societies is seen to depend upon one's ability to expand one's control over the environment, has been evident in the precept or dogma of development. Early in the Industrial Revolution it was possible to distinguish developmental societies from under-developmental societies - that is, societies that were becoming hooked on expanding their control over the environment, from those that had not taken up the habit. In the middle of the twentieth century one's political philosophy made little difference, since development had become the opiate of the world's governments - India being no exception. Concepts about development vary from place to place; in the high-energy societies, population expansion is still in fairly high repute. The claim that the purpose of development has been to "better peoples' ways of life" should not obscure the fact that this is only one view of its purpose; that is not all that it does. Since many of the problems in the "ways of life" that need "bettering" are due to an earlier developmental philosophy, mercantile and industrial structural escalation, it rings untrue to claim that development is being done as a favour to the energy-poor peoples of the earth. In fact, it is the high-energy nations that promote the developmental dogma, because it is they who are converting most of the energy and think it is necessary for survival at their level of cultural

expenditure. Lower-energy nations favour it for the same reason, but with less fervour.

In short, early in humanity's career man adapted, through a variety of different cultures, to almost all the environments the world has offered. Over this vast geographical area and through slow climatological changes, different technologies evolved. The increasing control afforded by these developments had a number of effects. For one, the species as a whole became more secure since a local catastrophe or technological failure did not mean that other adaptations would suffer a like fate. By the same token, what was significant for one population became insignificant for others; the species' security thrived on cultural differentiation. Another consequence of differential technology was increased control. Both stock and conversion devices variegated and expanded. Each increment of growth in this sphere of energy forms and processes meant a new basis of power; and each increment in the exercise of power meant that the social organization of a people had in a sense to expand to contain the new influences. However, this expansion has been occurring at a continuing and increasing energy cost. For the low-energy-level societies, the cost continues low. As the number of people increases, the effects on the environment become more marked. As technology advanced, the environment began to suffer permanent and irreversible changes. Agriculture led to the clearing of forests and grass-lands, to erosion and climatological change; industry has led to the spoilation of subsurface minerals and the population of the total environment with indisposible and toxic wastes. Every increase in



extraction of energy increased the cost, both in the energy spent on the conversion and in the energy lost as the raw materials found their way to final consumption and waste.

The cosmos has been not reversed but rather continues moving irreversibly converting low entropy to high; and, on earth, the process is the same, with man as part of this process, not a separate agent to it. Increasing population and improved technology are entropy - hastening processes. It is, as Georgescu Roegen<sup>1</sup> remarked, as if the human species were determined to have a short but exciting life.

## II

As the term economic development is generally known, it refers to a process whereby a contemporary society improves its control of the environment by means of an increasingly competent technology applied by increasingly complex organisations. It is the will to be modern to achieve change through new ideas and actions, to create new structures and new institutions which have no direct antecedents. It is not something merely economic in content or connotation, but those social relationships and activities that move a social system away from a traditional state of affairs in which there is little or no social mobilization among its members. To achieve this, a shift of power positions is involved which gives rise to new groups - George Blanksten has

---

<sup>1</sup> See, "The Entropy Law and the Economic Problem", in Toward a Steady-State Economy, edited by Herman E. Daly (1973), pp. 37-49. San Francisco : W.H. Freeman and Co.

usefully described these as "ascendent" interest groups, with new functions-usually on the basis of non-traditional forms of social and economic differentiation. The characteristics of this process are partially summed up in Daniel Lerner's<sup>2</sup> statement regarding the world-wide transformation from traditional to modern ways. The process he says :

" ... worked itself out through millions of individual lives; many suffered, others prospered, while their world was being reshaped in the modern image. In the end, all men of the west had acquired a new style of life ... But the process reaches different people in different settings and induces different dilemmas of personal choice".

Another theory, proposed by McClelland,<sup>3</sup> sees 'achievement motivation' as the crucial variable in individual impetus to growth and development. He maintains that traditional and agricultural populations are generally low on achievement motivation because of blocked opportunities and exploitation. This leads to other social characteristics which makes these people unlikely candidates for development and modernization if left alone.

During the nineteenth century the economy of India, like that of medieval Europe, was composed of regions each with its own systems of growing and getting, without unified markets or the economic uniformities which industry and urbanization can bring.

---

2 Daniel Lerner, The Passing of Traditional Society : Modernizing the Middle East, New York : The Free Press, 1958, p.43.

3 David C. McClelland, The Achieving Society, Princeton : Van Nostrand, 1961.

The result was vast discrepancy between the economic sophistications of the Presidency capital towns and the traditional primitive agrarianism of the rest of India. Unevenness of development had always been a feature of Indian economic life, but just as colonial rule had helped to upset traditional rankings in Indian society, so it attempted to reshape parts of its economic geography, and altering the inequality. Despite the large hopes of some policy makers in the early nineteenth century, British rule had signally failed to revitalize the Indian economies.<sup>4</sup> Only massive improvements in agriculture, which supported nine-tenths of its population, could have done so. But there had been no agrarian revolution. Indeed the later nineteenth century was a gloomy time of rising population, increased landless labour, sub-division of holdings, heavier indebtedness of the peasant and a disastrous series of famines. Cultivation remained "in the hands of small men, and the capital required for the cultivation of the soil is supplied in small sums by small capitalists to men of small commercial intelligence".<sup>5</sup> Thus, nineteenth century India had seen no extensive industrial development. But what appears more realistic to ask what had been the alternatives open to the people in India to seek a more competitive and viable economic basis for themselves and their country. A number of economists have declared that India must invest her human capital in rural development. So they must. But rural transformation is only part of a more comprehensive

---

4 See, M.D. Morris and B. Stein, "The Economic History of India: A Bibliographic Essay", The Journal of Economic History, Vol. 21, No.2 (June 1961), pp. 179-207.

5 Imperial Gazetteer of India (new edition, Oxford, 1907-1909, III, 90).



national transformation. Whether the country is still in the tight grip of neo-colonialism, or whether it is in the grip of an exploitative indigenous class is not a subject to be traced in this paper. But the fact remains that transformation and socio-economic betterment have not materialized for the vast majority of the people in India. And the clearest manifestations of this are found in both rural and urban areas. How might these conditions be ameliorated? Certainly not at the expense of socio-cultural milieu of the country. Something effective and purposeful needs to be done to bring traditional and modern population of the country into a symbiotic relationship whereby there is mutual exchange of skills and resources. As long as millions live in utter misery and abject poverty (which might be both rural and urban - although urban poverty is more debilitating than rural poverty), a true restructuring of society, at least a change from misery to decency, will be impossible. Under the highly diverse and complex cultural backgrounds and sociological conditions of the population aspirations can be brought into line with reality and urban and rural areas can join together in the common task of restructuring the social and political fabric. What is needed is genuine progress. This cannot be achieved by means of ad hoc decisions, development plans which basically aid the few and not the many, piece-meal planning, or mere rhetoric without implementation. Thus far the discontentment growing out of accelerated rate of unemployment, inequity, poverty and misery, has largely been absorbed by a still flexible social structure which has allowed for incorporation, but within distinct limits, of the masses of the poor into various structural niches. We can only guess how much longer these safety valves will operate.

There is a limit to which the economies of rural areas in our society can be diversified? Not only is the cost of rural development enormous, but we also need to ask whether it is sound policy to anchor more and more people to the land. At best this is a stop gap measure until agricultural efficiency has been increased. Unless the economies of rural India can create annually a vast number of new jobs, and radically dis-engage people from their traditions, rapid proletarianization in both rural and urban areas will be generally restricted. In the infinite variety of tenures and modes of cultivation, the Indian peasant remains an illiterate man, short of capital, of fertiliser and of healthy live-stock, tilling his few acres with implements unimproved since ancient times.

### III

There is no complete agreement among economists as to the best strategy to foster economic development in the less industrially advanced countries. Some even argue that economic growth, in the light of limited resources and projection about further consumption, should not be accelerated if the earth is to survive human exploitation. Some have argued in favour of gradual development. Although economic development has been defined in various ways, two definitions vie for prominence : (i) the growth of aggregate output of a country; and (ii) the growth in per capita output.

Since the advent of independence in India, it has become an accepted practice with the government to have "development plans". These plans attempt to promote economic development in three main ways : (i) by increasing the overall rate of investment; (ii) by carrying out special types of investment designed to break bottlenecks in production in important sector of the economy; and (iii) by trying to improve the coordination between different parts of the economy.

Today there are very few people who have not been affected by, and concerned with, the major social issues confronting our society. Especially the effects of uncontrolled population growth, waste, corruption, inefficiency, poverty, crime, violence, juvenile delinquency, lack of political and educational facilities, and pollution are being deeply felt in the remote corners of the nation. Other problems also include the uneven distribution of resources among groups, caste prejudices, the generation gap, the adventures in development and social change, and the attempts of people to attain an economically and socially viable way of life. All these issues are somehow intricately inter-woven. It should be made clear at the outset, however, that the solution of many of these problems are impeded in part, at least, by a technological insufficiency, and lack of enlightened judgements on the part of planners and administrators to consider other peoples' views and social goals with understanding.

The common technique to accelerate economic development and change in our society has been through the programs of community development. The programs should be designed to reach



village people and to make more effective the use of local initiative and energy for increased production and better living standards. In all of these programs there is a need to adapt improved knowledge and technology to the behavioural pattern of village people, or vice versa. This connotes organizational change, in most cases, of far reaching consequence to attain an economically and socially viable way of life.

The great evolutionary leap forward in techniques of growth and development came with the first Five Year Plan. "The central objective of planning is to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life". Above all, 1952 has been notable for the new emphasis on economic policy. All the propaganda and capabilities of the party in power and economists were directed to increasing production. In a way, the constitutional emphasis on social and economic equality and justice was replaced by the theme that everyone should sacrifice for the economic growth of the country and not expect a higher standard of living. The Five Year Plans were modeled on the Soviet pattern of giving primacy to heavy industry at the expense of agriculture and consumer interests. After 1952 a new image began to emerge. India was seen by most as offering a 'model' for rapid development to the rest of the underdeveloped world. Most economists claim that during the first decade of the "planning" Indian economy made significant strides, first in rehabilitation from post-independence disruption, and then in substantive growth, particularly in the industrial sector. Whereas the achievements of the first decade

reflect a natural pattern of Indian history, the overall growth record itself has been unspeakably depressing," for as many as 90 (out of 121) countries had a higher rate of growth of GNP per capita than the Indian rate during 1960-1978 (1.4 per cent per year; GNP per capita (1978) 180 U.S. dollars).<sup>6</sup>

Even "though the planning process has become a part and parcel of modern economic growth, we have to contend with the reality that it has so far benefited mainly the upper strata of our society without the fruits of development reaching the poorer sections adequately".<sup>7</sup> India has a potential for development in its large and well versed labour force, but her initial commitment to emulate the 'alien' model of economic development has failed to provide material rewards to the people who increased their efforts towards the goal of achieving material power and prestige, both of which will raise standards of living.

#### IV

A fundamental issue for Indian economists is the question of whether resources and plans devoted to raising the level of 'life styles' might be more effectively devoted to pragmatic goals. The basic problem, of course, is that national economic strategies and policies in different fields have not been sufficiently successful to convince the people to be routinized into supporting 'ongoing' processes. To many, including apparently planners, it is because economic prescriptions, mostly divorced

---

<sup>6</sup> World Development Report, August 1980.

<sup>7</sup> President Sanjiva Reddy's Independence Day speech, 1980

from the given social context, have often gone wonkey.<sup>8</sup> Also, the 'germ of doubt' has multiplied over the years in the minds of the people and come to infect the entire body politic. Under present system of decision-making all priority problems have been matters of ideology, they tend to be elevated into issues of legitimacy, and it is nearly impossible to treat them as matters of opinion among well meaning men. The social consequences of our economic policies may be more significant and problematic than the economic consequences. The early stress on the growth and development of heavy industries favoured the urban labour force and in many respects made the Indian workers an advantaged citizen in comparison with other groups in the society. Industry and government workers were given job security, and their wages generally have been higher than rural labourers could hope to obtain. The economic policies have continued to give the urban industrial worker economic rewards great enough to keep him satisfied. Since the mid-1970's, when the focus of Indian economic strategy shifted from heavy industry to agriculture and decentralized modes of production, public attention to labour has declined but material advantages still remain.

For the past three decades, growth considerations have coloured any discussion about development in India. Assuming both effective economic controls and the most favourable possible

---

<sup>8</sup> In his analysis of "The National Scene : A Cushion or a Critique", The Times of India, February 7, 1981, Sham Lal emphasises the contradictions in terms of determining specific issues of priorities among different economic objectives. All these problems quite naturally tend to create conflicting attitudes among political leaders who see the specific problems from different perspectives. The task of socializing new generations is also, of course, a significant problem in any country seeking rapid change.



results from programs aimed at a higher standard of living for the masses, India has only witnessed 'the economic malaise' (see Table 1). It was assumed that development strategies would

Table 1  
Indicators of Development

A. <u>Average Annual Growth Rate (%)</u>	<u>1960-1970</u>	<u>1970-1978</u>
1. GDP	3.6	3.7
2. Agriculture	1.9	2.6
3. Industry	5.5	4.5
4. Manufacturing	4.8	4.6
5. Services	5.2	4.6
B. <u>Average Annual Per Cent. Inflation Rate</u>	7.1	8.2
C. <u>Labour Force (% ages)</u>	<u>1960</u>	<u>1978</u>
1. Percentage of working population (15-64 years)	57	56
2. Agriculture	74	74
3. Industry	11	11
4. Services	15	15
D. <u>Average Annual Growth of Labour Force</u>	<u>1960-70</u> 1.5	<u>1970-78</u> 1.7

eventually produce a broad middle class with values and life-styles resembling those of industrialized nations, despite the economic pattern of continued scarcity. Accumulating evidence now indicates that development strategies do not and cannot produce the expected results. The social distance between the growing urban mass (new elite) and the vast rural poor is a new phenomenon, unlike the traditional pattern of discrimination known in India.

This new discrimination is not a transitory thing which can be overcome by development strategies. On the contrary: I submit that one of the reasons for the awakening frustration in the majorities is the progressive acceptance of the "liberal myth", the assumption that economic planning is an assurance of growth and social integration. Since our plans were modeled on the Soviet pattern of giving primacy to heavy industry at the expense of agriculture and consumer interests, the ideal of economic development was a creative utopia. But the same planning which worked in the initial stages for sober economic activities and obtaining sources of credit and technical assistance has now become an oppressive idol which protects those who are already benefited by it. The number of satisfied clients who benefit from development strategies every five years is much smaller than the number of frustrated poor and the unemployed who are conventionally judged by their failure for use in a marginal labour and productive pool. This results in socially and politically acceptable forms of discrimination which benefit the relatively few achievers. Economic planning allows a head start to be rationalized as an achievement. It gives to privilege not only the appearance of providing advanced technologies but also of generosity. Development strategies have become part and parcel of a society in which a minority, a small group of people is on the way to becoming so productive and exploitative that the majority must be planned into disciplined consumption. Development issues therefore - under the best of circumstances - help to divide our society into two groups: those so productive that their expectation of annual rise in personal and corporate income lies far beyond the national average, and

the overwhelming majority, whose income also rises, but at a rate clearly below the former's. These rates, of course, are compounded and lead the two groups further apart. Obviously, the industry, commerce, advertising, participation and decision-making process in politics is different for both groups as a matter of principle. Thus, these two paradoxically opposed groups in our society have almost sealed themselves off from each other.

The 'developed' group perceives these processes exclusively as political indoctrination, and their economic purpose eludes its grasp. Only fanaticism inspired by idolatry of a system can ultimately rationalize the massive discrimination which will result from another twenty or thirty years of development strategies a capital-starved society with economic marks.

## V

The time has come to recognise the 'real' burden of the development strategies in India, so that we may become free to envisage change in the social system which now make development strategies a necessity. The thrust of this paper has been to suggest that we plunge our imagination into the construction of scenarios which would allow a bold reallocation of planning functions among industry, politics, short growth retreats, and intensive preparation of masses for overall economic betterment. The cost of 'strategies' must be measured not only in economic and political terms, but in social terms as well. Development plans, in an economy of scarcity invaded by colonial, conservative perspectives



of growth, accentuate and rationalize the co-existence of two 'societies', one a colony of the other - pluralism of inequality, of differentials in wealth and access to the advantages of wealth.

The move from the village to the city in India frequently means a move from a world where status is explained as a result of inheritance and achievement into a world where it is explained as a result of development. A close look reveals that this development system has built a narrow bridge across a widening social gap. As the only legitimate passage to the middle and lower middle class, the development strategies restrict all unconventional crossings and leaves the under-achiever to bear the blame for his marginality. Once it is understood that the cost of development is not inferior to the cost of chaos and cultural dis-integration, we might be on the brink of courageously costly compromise. Today it is as dangerous in India to question the myth of social salvation and change through development strategies as it was dangerous 300 years ago to question the divine rights of the Catholic kings.

2

Seminar  
on  
ALTERNATIVE DEVELOPMENT STRATEGIES :  
THEIR RELEVANCE TO INDIA

ON THE CONCEPT OF DEVELOPMENT ALTERNATIVES

by  
B.N. Juyal  
Gandhian Institute of Studies  
Varanasi

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
and  
STATE PLANNING INSTITUTE  
LUCKNOW

February 21-22, 1981

## ON THE CONCEPT OF DEVELOPMENT ALTERNATIVES

B.N. Juyal

The key question raised in the paper circulated for this seminar is: Is Economic Growth Relevant? It is the contention of this paper that certainly the ideology of economic growth, of capitalist revolution by means of accumulation and circulation of capitalist production of even the 'planned' variety has proved to be irrelevant alround; though in the same breath we cannot say that economic 'development' or progress has also become irrelevant. "But the Rostovian Comet (The Stages of Economic Growth) has flashed across the horizon finally to vanish into the academic haze and the poor are still with us, poorer and more numerous, while the economic systems which were to offer the magic escape from poverty have been crippled by the war which Rostow himself helped to shape and their imperial nakedness is finally exposed for all to see...."

These realities have to penetrate the debate on development alternatives, otherwise this currently fashionable discussion theme in the Third World countries shall remain as a cosmetic to lace up the agonising failures of the existing modes of development. "Development" itself has a bewildering variety of meanings. It must, however, be admitted that the search for alternatives did begin with the question: Development for whom; and development for what? This criterion has been at the Centre of evaluation of past development but it serves no purpose to pose it just at the normative level.

Alternatives in development may be understood in terms of different designs for entire societies. These designs will typically vary with ideological commitments. The most obvious alternative in this sense is between the socialist and capitalist lines. The other way of looking at alternatives is in terms of less macroscopic and more concrete questions, i.e. simple general options or "game plans" which are then presented to the policy-makers as alternative directions that might be taken: such as agriculture Vs industry; light industry Vs heavy industry, and so on. The third usage is expressed in the now popular slogan "development without modernization" or indigenous (to the Third World) Vs the Western institutional models.



The position this paper takes is that any serious-minded debate on the question of development alternatives cannot evade the ideological issues. Anyway, by now the seemingly new technical approach to the alternatives question has to a great extent already proved to be futile. An ideological approach does not necessarily mean taking a dogmatic position such as that the only alternative to the vagaries of the capitalistic system is authentic socialism. Anyway, this cannot be debated from forums like this one. Development is the path towards social change and transformation which is realisable only through the widest possible participation of the masses. This is not being talked in the sense of "people's participation" at the terms set by the dominant classes. The role of ideology should be understood in terms of understanding of the existing class-based social reality and the creation of an alternate social reality. It is only through an ideological confrontation between the dominant and rising classes that a restructuring of the ~~existing social reality takes place~~ and a new representation of social reality emerges. In the process ideological confrontation also contributes to the development of scientific knowledge.

Whatever other values may have influenced the concerns with development alternatives, there are two most prominent theoretical approaches to the problem of development. All other strands fall between the two. The modernization school with its intellectual lineage derived in part from Max Weber and in part from Talcott Parsons and Marian Levy Jr. which also has close ideological kinship with the Economic Growth models in Economics. It finds its historical bearings in the rise of nationalism and the spread of secular values and social differentiation, gives central consideration to the problems of national integration and organisational stability and efficiency and stresses cultural facts such as ethnicity, western education and bureaucratic structures and role conflicts and in development planning on model of diffusion of 'growth'. This school has obviously dominated the development thinking and attained a high degree of academic 'sophistication'.

In contrast to the modernization school, the 'development of underdevelopment' school : with its firm roots in Marx, Lenin and Paul Baran, has oriented itself historically to the spread and evolution of capitalism, imperialism and neo-capitalism and the rise of counter-forces to challenge the division of labour which causes and sustains underdevelopment. It emphasises economic-based realities such as modes of production, class formation and class conflict, and delineates the processes by which class-based domination is achieved or threatened. Whatever the theoretical status the academics might attach to it, it presents a powerful critique of the theory of Economic Growth based on capitalist accumulation and circulation. That the developed countries and underdeveloped countries are not two separate worlds at all. They are in reality the top and bottom side of one and the same world; that historically the impoverishment of the subjugated countries and regions coincided with the accumulation of wealth in the metropolises; that the developed centre and impoverished periphery patterns pervade between countries and within regional and local units within countries and that the kind of development on one side and underdevelopment on the other side are in mutual and dialectical interdependence.

In the summing up part of the basic discussion document prepared for the seminar, Prof. B.K. Joshi has pointed out some limitations of what has been termed as the dependencia school - though I prefer the much more meaningful expression given by A.G. Frank "development of underdevelopment" - mainly that it applies more closely to the field of international economic relations <sup>in the capitalist system</sup> and as much any dependency phenomenon in socialist countries should be precluded, which does not seem to the real fact. The second part by the arguments <sup>is</sup> not really important, because to the extent unequal economic relations still exist within socialist countries, the dependency phenomenon must operate and some prominent

participants in the theoretical exploration on these lines do express concern for the existence<sup>of</sup> "Social Imperialism". This, in fact, increases its validity.

Some aspects of the centre-periphery relations have been stressed in present-day liberal economics as well (e.g. by Prebisch and Myrdal); more specifically that free trade and international division of labour causes continued "backwardness of less developed countries (LDCs). They simultaneously also emphasize the role of social institutions and value systems prevailing in these countries in evaluating the phenomenon of underdevelopment. But they do not go deeper into the historical causes that created these centres-periphery relationships or of the social institutions or value systems of the LDCs.

creation of underdevelopment  
But the theoretical and empirical bases of by means of/capitalist penetration which transforms non-capitalist societies from relatively self-sufficient organisations for the production of use-value to specialised and dependent units producing exchange-values is well established. Plainly the drive to accumulate lies at the centre of the theory but this necessitates the creation of a geographic landscape to facilitate accumulation through production and circulation. Of late, there have been many attempts in constructing a theory of accumulation on an expanding geographical scale. Thus to the global structure of capitalism in general, and  
/imperialism in particular their corresponds a structure of human settlements, which is basically determined by the mobility of production factors e.g. raw materials, raw-labour and raw capital, which flow from the periphery to the centre and then counterflow to the periphery in the shape of processed consumer and capital goods, professionalised labour and financial capital, but with the added significant difference that the control mechanism governing the counter-flow stay at the 'centre'.

Thus, in the process of "development" the periphery is enveloped in a growing dependency relationship with the centre : the periphery-countries with the centre-country; the periphery region with the central region and the rural periphery with the urban centre.



The relevance of this theoretical approach is well-exemplified by the works of Susan George (How the other Half Dies) and others engaged in issue-oriented development research, about the "food systems". It is being mentioned here, because some scholars (e.g. Johan Galtung) have stated that food was an exception to the general mobility pattern of production factors from the periphery to the centre. Susan George has abundantly revealed how the power game is building between the "hungry and power hungry", how the industrially advanced countries or the North is gaining control over the world's food systems through seemingly good-intentioned interventions.

This theoretical approach does provide a powerful critique of the economic growth and helps us atleast to identify the strategic options open to us to counteract the forces and mechanisms of exploitation, at all levels. More importantly, its encompass the role of the people in expediting the process of development and shape their own destiny and not remain dependent on the ruling classes which use "development" as the proverbial carrot dangled before the people for political patronage and manipulation so long as the economy provides a scope for tight rope walking; and if economic stagnation prevails to substitute 'development' by plain repression. It does give the people <sup>the instrument</sup> to formulate their demands in the correct perspective of social transformation and to thus create the "Peoples Path to Development."

.. ..

~~CONFIDENTIAL~~  
Seminar  
on

ALTERNATIVE DEVELOPMENT STRATEGIES :

THEIR RELEVANCE TO INIDA

SELF-RELIANT DEVELOPMENT, EXTERNAL BORROWING  
AND ALTERNATIVE STRATEGIES FOR DEVELOPMENT

by

Kamal Nayan Kabra  
Indian Institute of Public Administration  
New Delhi

GIRI INSTITUTE OF DEVELOPMENT STUDIES  
LUCKNOW

February 21-22, 1981

SELF-RELIANT DEVELOPMENT, EXTERNAL BORROWING  
AND ALTERNATIVE STRATEGIES FOR DEVELOPMENT

Kamal Nayan Kabra

Self-reliance or self-reliant development (SRD), with its openendedness, has been an important part of the goal-structure of many developing countries. Similarly, external borrowing, aid, or international resource transfer, has been considered an important instrument designed to help developing countries, while at the same time, meeting some important economic (let alone political) needs of the developed economies. There evolved some development strategies which wove together the pursuit of self-reliance and increasing recourse to international borrowing. The experience of many poor countries, like India over the last two three decades, seems to belie many of the earlier expectations from this intertwining of self-reliance and international resource transfer. Quite a good deal of literature seems to be concerned with these issues. In the present paper, it is attempted to analyse the multi-dimensional relationship between self-reliant development and external borrowing within the context of alternative strategies for development.

In Section I, the place of self-reliance in the goal-structure of developing countries is discussed, taking note of various pressures and compulsions for and against adoption of self-reliant development whether prior to, or following



or in conjunction with economic development. Since a complex set of internal and external factors are ranged for and against SRD, including the cultural and intellectual aspects of SRD, the struggle shifts to conceptualization of SRD in order to determine its content, policy implications and relationship with a strategy of development.

In Section II, a specific, short-run, tactical concept of SRD, derived from the dominant paradigm of development economics is discussed and elaborated. It stresses external viability, particularly on the current account BOP and assigns a certain, tactical role to external borrowing in the achievement of SRD.

Section III, takes up an elaboration of the implications of the BOP based tactical concept of SRD, alongwith its import-substitution, export promotion implications. It is shown under what conditions the tactical perspective can be made to serve the needs of SRD. The implications of the tactical concept for long-term production structure and export-orientation of the borrowing countries especially in the current context of world trade and heightened need to earn foreign exchange seem to shift external borrowing from "the solution set" of SRD back into "the problem set" through many channels like worsening terms of trade, reduced availability of resources for strengthening public sector and rising export-orientation. This process may make the borrowing countries obtain less by way of borrowing

than the amounts outflowing by way of debt-servicing. Thus there arises the need to borrow at an increasing rate pushing these countries in a veritable debt-trap.

In Section IV, the links between short-run tactical reliance on external borrowing and long-run structural transformation policy of import-substitution are discussed. It is attempted to show that the concept of import-substitution derived from the tactical SRD perspective focusses excessively on production structures and tends to bring in an imitative pattern of growth. Owing to a combination of factors like neglect of demand and market aspects, reliance on protective tariff and increasing role of foreign capital, enterprise and technology, import-substitution tends to bring about greater external dependence. These consequences are related to the GNP concept of growth and the strategy following from it. Owing to these factors, coupled with the neglect of the strategic links between mounting debt-servicing and the structural distortions (in the form of export-orientation and self-induced increasing borrowing), it is inferred that such import-substitution tends to ensure a rate and pattern of growth both antithetical to SRD.

Next Section V raises the question of the impact of external borrowing on the size, structure, and growth of home market, an important internal factor in development. It is attempted to show that the GNP growth based variant of SRD with its instrumental role of external borrowing can at best produce

some rather limited, short-run effect on the widening and deepening of the home market which may be off-set on account of import-surplus financed by external borrowing. Moreover, such borrowing will tend to heighten the implications following from imitative, dependent growth inherent in tactical concept of SRD which increases the export-orientation of the economy.

In Section VI, an attempt is made to see the theoretical bases and underlying assumption of the BOP based variant of SRD. It appears from a critical analysis of the processes of import-substitution and export-promotion which were activated in order to attain BOP based SRD that this concept was not based on an adequate historical analysis of the dependency nexus which was atleast implicitly sought to be overcome.

Thus pursuit of SRD was hampered by misdirected conceptualisation which was related to neo-classical paradigm of development planning and arose from new relationships between national and international capitals giving rise to a new form of dependency. Our formulation of the concept of SRD has to be based on the present character of international relationship which may be described as international State collective monopoly stage which demands world capitalist integration. In this setting, the market forces have to be the instruments of new international economic relationships, and internal processes of development have to be similarly dominated by market forces. In so far as genuine SRD accords primacy to meeting local needs through the use of local resources it



comes in conflict with capitalist economic development. Capitalist economic development with its strong affiliation to TNC's dominated international relationships can give no different content to SRD than is available under tactical, BOP concept of SRD. Even in countries like India with import-substituting industrialisation with accent on capital good, and public sector, the basis for SRD could not move beyond tactical SRD. It is suggested that SRD has to be concerned with the primacy and relative autonomy of internal factors, forces and processes of development based on symmetrical international relationships in political, economic and cultural fields.

In the concluding section (VII), we try to pull together various threads in our argument and view the outcome in the context of alternative strategies for development. Thus we try to show that the difficulties inherent in the current BOP account viability concept of SRD cannot be overcome simply by replacing it by external viability in the overall BOP. This is because the limited external viability concept and tactical reliance on external borrowing for attaining such viability are, in their turn, derived from GNP growth strategy of "development".

In fact, an attempt to relate external viability to overall BOP moves it beyond the parameters of BOP and relates it to the structure of production, ownership and control pattern, technological choices, resource mobilisation, employment

generation, development of home market etc., which in their complex inter-relationships define an alternative strategy of development. Such a concept of SRD has to be rooted in a historical and holistic concept of development taking explicit note of the power-centered processes which lie behind the content of goal structure and strategy of development. Thus, the antithetical relation between SRD and external borrowing arose from the overall strategy and political economy of development. It means that no general, blanket case against external borrowing has been made; only its self-defeating implications in the context of its placing in a particular (GNP based) strategy of development have been brought out.

# I

A unique significance is generally assigned to self-reliant development as an aspect of pattern of development sought by the poor countries.<sup>1</sup> This importance arises, partly, from the fact that the aetiology of underdevelopment is intimately related to the evolution of international economic relations over the past few centuries.<sup>2</sup> Then a diversity of non-quantitative, value-laden choice problems connected with self-reliant development (SRD hereafter) led to a relative neglect of this issue in the literature on development planning. The experience of the Third World over last 2-3 decades has underlined the need to focus on SRD in many different ways.<sup>3</sup>

One thing which must be stated at the outset is that the goal of self-reliance arises from some notions of independence, autonomy and/or self-sufficiency.<sup>4</sup> It is obvious that in a poor and backward society the greatest enemy of such self-reliance and independence is the basic underdevelopment of these economies.<sup>5</sup> As a result, it can easily be appreciated that without simultaneously ensuring a rapid rate of development and a qualitative transformation of the nature of the economy's relationship with the rest of the world, no SRD can make sense. Therefore, an important consideration in determining the framework for SRD is the need to ensure simultaneously a fairly sizeable and sustained rate of non-imitative development. It appears, particularly in retrospect, that one of the reasons responsible for the mist surrounding the concept of SRD arises from an inadequate understanding of the relationship between the rate and pattern of development.

In other words, SRD has to be an essential component of development and not merely an appendage of a process of quantitative economic growth which subsequently may give the poor economy strength to snap its unequal ties with the dominant economies.<sup>6</sup> Rather, it has to be a process in which the external links of the poor country are so regulated and reformulated on the strength of its political emancipation that its internally initiated processes of development are helped to proceed smoothly and rapidly. This process, it must be admitted, is not without its tensions and contradi-



ctions. For one thing, snapping the ties with the erstwhile colonial masters and other imperialist centres causes disruption of existing techno-economic relationships. Second, the national capitalist class may be in its infancy and deprived of hegemony. Given its weaknesses and absence of prospects for primitive capital accumulation, it may fight shy of breaking off its trading, financial and technical relationship with the world capitalist system. Thus, its pursuit of the policy of redefining and regulating its ties with the developed economies.

However, it would be naive to assume that with the onset of the process of decolonisation the imperialist countries become passive spectators who would like to remain at the receiving end of the unfolding process of reshaping of the international economic relations. Despite greater mutual dependence among the developed countries,<sup>7</sup> their vital interests are involved with the developing countries. They use their power, including the processes involved in the transfer of power to local interests, to see that any re-fashioning of the international economic relationships does not cause too much and avoidable harm to their interests.

In this process, apart from the use of their economic and political strength, recourse is made to cultural and intellectual resources, particularly in the field of ideology, knowledge and expertise.<sup>8</sup> The consultants, advisers and academia of the First World took a leading part in defining

the goals and strategies of development, with or without the involvement of their local counterparts who were recognised and selected mostly on the basis of yardsticks of assimilation of and mastery over the alien paradigm.<sup>9</sup> Thus the indigenous processes and forces of development had to content with the subtle and substantive interventions by the departing imperialist forces. It follows from the above that the simultaneous pursuit of development and SRD is a difficult exercise vulnerable to many internal and external pressures, not only in operational terms at the stage of policy planning and implementation but even at the conceptual level.

To begin with, it can be seen that rapid and sustained development requires a massive mobilisation of resources. It is also clear that, by and large, this resource-mobilisation has to come from within the resources available internally in the economy in question.<sup>10</sup> These resources here have to be understood not only in the financial, organisational and physical terms but also in terms of the theoretical and conceptual resources (cultural resources, one may broadly say) which have to provide the intellectual basis for a process of contrived, planned, non-spontaneous or, in brief, socially-engineered process of development.<sup>11</sup> Since we have taken a concept of resources in a very wide, probably the widest possible sense, it may well be understood that such a massive resource-mobilisation for SRD will have fairly sharply pointed and clearcut implications not only for the priorities and pattern of

investment and for economic policies in general but also for the system of incentives, motivation and methods of instituting socio-economic processes in decision-making and control spheres as well as in real production-distribution spheres.

The implications of the pursuit of development embracing SRD as an integral component in terms of resource mobilisation, pattern of development and the institutional complexion do not necessarily square with the interest and aspirations of the dominant sections in the poor countries like national capitalist class in industrial and non-industrial sectors. Since primitive capital accumulation is not feasible in present day poor countries, in the manner it was in presently developed countries in the early phases of their development, resource mobilisation means a draft on the surpluses moving under the control of the better-off sections. The constraint of capital and intermediate goods dictates that, even if the market processes can be made to throw up the requisite finance, the structure of production has to be geared in favour of such goods at the cost of non-wage goods.

Moreover, it would also dictate such technological choices which make relatively greater use of labour in processing domestic primary products in order to turn out wage-goods and producers' goods with minimal need for imports.<sup>12</sup> It would also require quick strides in agricultural productivity for providing food, raw materials, export surpluses and



savings on the basis of indigenously available resources. This would minimise the recourse to HYV - chemical fertilisers based betting-on-the-strong-strategy on account of its import-content and lack of adequate motivation (without appropriately lucrative farm prices which, if provided, would in turn, defeat the objective of raising domestic rate of saving). Similarly, a restructuring of the pattern of private corporate industrial investment in favour of Department I and wage-goods industries, critical for self-reliance, would mean either unattractive rates of return for potential and actual entrepreneurs or the growth of state sector which tends to weaken the relative position of national capitalists.

These fears and foibles of the ruling echelons find a sympathetic response in the interests of the imperialist powers threatened by planning for development incorporating SRD. Thus powerful internal and external forces seem to find a common ground for gunning at the pursuit of SRD. The existing economic linkages between the imperialist developed countries and the newly emergent poor nations, the internal power configuration in the poor countries, the compulsions of their present, lop-sided economic structures and the dominant paradigm of development economics further help in making such policy choices which tend to move away from SRD.

Yet it is difficult to make short work of SRD because it represents not only the aspirations of national liberation and freedom movement but also embodies prospects for acquiring

power and strength by national capitalist classes. More importantly, resumption of the process of economic growth also needs a renewed emphasis on domestic factors for the simple reason that too many uncertain and nationally uncontrollable factors tend to intervene in externally-oriented processes of development. Hence there has constantly been going on an operational exercise of determining the content, depth and sway of SRD. The rejection of both development first and self-reliance first alternatives (not so explicitly but largely in a tacit manner) in favour of the simultaneity of the two gave an operational urgency to the task of determining the content of SRD for it would be an important factor in the choice of strategies of development.

## II

It has always been understood that even in the most restrictive sense of the term, SRD has to take external viability as an essential component of development. External viability can be understood in many ways; the most popular connotation being the capability of an economy to obtain on commercial-economic basis whatever it might need to obtain through external economic relations. In plain terms, what it has often meant is the capability of an economy to pay for all its imports by its exports. In BOP terms, what it means is that, for over a fairly reasonable period of time, a country's balance of payments have to be brought in equilibrium. Since

the current account generally accounts for the largest single block in the BOP, it has sometimes been suggested that if a country manages to pay for all its imports, it can be said to have achieved a fair degree for external viability.<sup>13</sup>

This certainly is a very restricted interpretation, especially in a growing economy where imports are needed primarily or increasingly on account of past or current investment programmes. That is to say, as an underdeveloped country undertakes efforts towards development, being a late-comer on the path of industrialisation, and lacking a structure of production capable of supplying investment goods, the importance of capital and maintenance imports increases. Thus as the process of development gathers momentum the proportion of capital goods and maintenance imports to total imports increases. So is also the case with import of technology, consultancy services, etc. Given precarious BOP position, the additional imports increase BOP deficit which has to be financed by capital account transactions capable of increasing foreign exchange inflow through loans, equity, grants and/or running down of reserves. The net result is an increase in the unbridged gap in BOP leading to intensification of foreign exchange constraint on the process of development. That is to say, self-reliance in the balance of payments would require capacity to pay not only for current imports, but also for imports of financial resources in various forms which are essential for implementing a programme of development. In



other words, as far as the BOP of a country is concerned, it has to be balanced in the overall sense of the term, i.e. current as well as capital accounts, including invisibles and financial transactions.

Here, there arises a difficulty. If the under-developed countries are supposed to be suffering from a resource-gap, both in physical and in financial terms,<sup>14</sup> then it has often been suggested that during the early stages of development import of capital or finance to bridge the savings and foreign exchange gaps is also an essential facilitating factor in the process of development.<sup>15</sup> It is on this basis that it has been suggested that the underdeveloped countries need what has come to be known as external financial assistance meaning thereby import of financial capital, both on public as well on private account, in order ultimately, to end dependence on such external assistance. That is to say, the proposition has become : the greater is the commitment to SRD and the sooner we want to achieve it, the more external assistance is needed at present. For the strategic goal of SRD, a tactical reliance on net resource transfer from abroad is required.<sup>16</sup> For quite some time this thesis of external assistance to end external assistance has remained a popular theme in writings on problems of planning for development.

It was argued that in so far as external viability on the current account requires efforts towards import-substitution and export-promotion, it steps up the investment needs with

accent on import of capital equipment, intermediate goods and technology. Given the general paucity of investible resources, the enhanced requirements of foreign exchange tend to dictate a certain reliance on international resource transfer. That is to say, SRD can be pursued in a phased manner. To begin with, let it be concerned with the problem of balancing the current account of the balance of payments, through liberal infusion of foreign funds through borrowings, grants, investments, etc. In this manner, it may be suggested that a narrow but realistic concept of SRD came into being. It emphasised short-run external viability increasing efforts towards import-substitution and export-promotion, especially in what came to be known in countries like India as non-traditional exports (which were kept in a low key in the past owing to the policies of the colonial State). In this exercise, a prominent place was accorded to the import of capital to lubricate the process of import-substitution by correcting the lop-sided industrial structure bequeathed by the colonial regime. In this process, SRD as a concept was given an operational meaning in an appropriate tactical perspective.

### III

It is a concept which has direct implications in terms of certain attributes of the pattern of development. However, some of the implications of the thesis that initially increasing inflow of resources<sup>17</sup> from the developed countries

is essential for achieving external viability in the long run by promoting import-substitution in industry, agriculture and other sectors need to be carefully worked out. When a country borrows resources from the rest of the world (outright grants cannot normally be considered a significant source of resource transfers from the developed to the developing countries),<sup>18</sup> it brings in some resources capable of generating productive capacities in the borrowing countries. In return for the facility of generating productive capacity beyond the means permitted by internal resources, such foreign credit imposes on the borrowing countries the obligations of not only repaying the loans after the contracted period of the loans but also an ongoing obligation of debt-servicing during the period the loans remain outstanding. On the basis of this two-fold relationship (enhanced productive capacity on the one hand, and repayment and servicing obligation on the other), it can be suggested that, if on balance of comparison of these two effects of international capital movements, it appears that the advantages of increasing productive capacity in excess of what is permissible by recourse to one's own resources exceeds the costs and burdens imposed by the obligation to repay, it is useful to go in for such capital imports. In fact, such a policy of permitting an inflow of resources from outside is then considered a blow in the direction of ensuring a speedy march towards SRD in so far as it is related to balancing of the current account of a nation's BOP, alongwith stopping up of the rate of growth of the economy.



For a fairly long period of time and over much of the spectrum of public opinion such a view held sway.<sup>19</sup> It has been realised that external debts have to be repaid ultimately in terms of foreign currency i.e. by way of increasing foreign exchange earnings. As more and more resources flow in from the rest of the world, the repayment and debt servicing obligations assume sizeable dimensions tending to pre-emptorily commit a rather large part of the total foreign exchange earnings for the purpose.<sup>20</sup> To meet the rising debt servicing ratio, what a country needs is to earmark a part of its current output for purpose of meeting amortisation and interest payment needs (i.e. increase its current savings in home currency by an amount equal to debt-servicing charges) and then, through a surplus on its current BOP, convert the savings into foreign exchange equivalents which can be used for discharging debt-servicing obligations. To the extent externally obtained finance enables a country to invest beyond its current savings, it requires additional savings in future. To the extent that external borrowing enables a country to obtain goods and services from abroad without making a draft on current availability of foreign exchange, such capital inflows necessitate in future an increased disposition of a country's output and/or resources for external markets in order to generate foreign exchange resources needed for debt servicing. External debts then amount to postponing the current problems for the future with added dimensions.

In so far as the additional production capacities brought into being by external borrowing not only lead to net additional output (after meeting debt-servicing charges) but also relax external real conditions of growth (i.e. either domestically supply the needed goods and services or enable domestic production to be exported to earn foreign exchange for buying the required investment and wage goods), they justify postponement involved in foreign borrowing. In this situation, the loans become self-liquidating and fresh loans do not pile up on earlier ones increasing what Abbett calls "the crippling backlog of accumulated debts."<sup>21</sup> In case of ODA, what are the conditions for the loans to become self-liquidating? Lewis has specified four conditions<sup>22</sup> for the loans to become "not a burden but a blessing, the larger the debt burden, the better off the country will be."<sup>23</sup> The conditions are as under :

(1) The loans must add more to national income than it costs.<sup>24</sup> It must however, be added that the "net positive returns criterion" should include not only the apparent financial costs but also the other hidden and not-so-hidden conditions which reduce the returns.<sup>25</sup> Similarly, all the positive benefits, especially those capturable in the form of additional output over the life of the loan, must also be taken into account in arriving at net returns. (2) The additional income may originate in the economy but may not show up in the budgetary resources. The borrowing governments may then be faced with a repayment crisis. (3) Additional domestic positive returns accruing to government do not meet the needs of servicing

foreign debts unless these can be converted into foreign exchange. That means the inflow of external resources must transform the production and/or trade structures of the borrowing countries through encouragement to import-substitution and/or export-promotion.<sup>26</sup> Export-promotion, moreover, must take note of "effective exports", i.e., the domestic resource cost of each unit of foreign exchange earning.<sup>27</sup> (4) These three conditions must have a temporal profile less than or coinciding with the term of the loan, so that when the loan contract is over, no net liability is bequeathed and during the period of repayment means for discharging obligations are available.

From the above, it follows that the scale of and persistence with external borrowing has to be viewed first in the context of a country's long-term potential position vis-a-vis the world economy (i.e. on a realistic assessment of its total export potential and/or import-substitution potential, giving its net foreign exchange position in future). Then, the domestic question of the capacity of the state to mop up and/or generate adequate resources i.e. the political economy of the country in question, is also a factor determining the capacity to borrow.<sup>28</sup> The other two, basically financial criteria, alone would not suffice in this connection.

It follows that the question of external borrowing turns on the present and potential relative position of an economy vis-a-vis the world economy. Foreign borrowing can, in fact,



be considered as a means for making a transition from the present to the potential position in the world economy provided detailed and careful planning<sup>29</sup> keeping in view the four conditions discussed above, is undertaken. This is probably what is meant by tactical reliance on external borrowing for attaining SRD. In this perspective, foreign borrowing is used in a planned manner for changing the material and technical character of the reproduction process in such a way that the externally-related components of the economy become more effective, i.e., find a new, different and equitable place in the international division of labour.

Thus the potential impact of external borrowing depends on the framework, form and specific manner of its utilisation, i.e. on socio-economic, technical, administrative and political framework in which it is resorted to and utilised. The size and duration of continuation of a tactical policy of external borrowing form parts of such a framework and hence are critical considerations which influence the impact produced by external borrowing.

The Post-Second War experience of Third World countries suggests that except for petroleum producing countries, there are hardly any poor countries which have a sufficiently elastic foreign exchange earnings.<sup>30</sup> This is especially so in the present context of the world trade dominated by the developed market economies. This is also on account of structural and production constraints pertaining to both poor and the rich countries and

the deliberate protectionist policies of the latter. The transfer of external borrowing from "the solution set" to "the problem set" of under-development also arises from the connection between direct and/or indirect support to production and consumption of luxuries on the one hand, and external borrowing on the other, owing to fungibility of credit and acceptance of marginal expenditure items caused by enhanced availability of funds.<sup>31</sup>

It follows that as far as external economic relations and SRD are concerned, the crucial conditions relate to the necessity to generate export-surplus to meet the inherent, inflexible obligations of repayment of debts (except for the saving grace of debt-rescheduling which is but a polite expression for averting imminent default). Thus, in the policy package following from SRD, particularly based on external borrowing export-promotion acquires an important position.<sup>32</sup> That is to say, on account of transactions on the capital account in the past not only the current repayment liabilities increase but a long-term implication on the production structures of these economies is also imposed which necessitates increasing production of goods and services which are destined for the external markets. It follows that the strategy of SRD under discussion necessitates a pattern of development with a large and rising proportion of exports to GNP - irrespective of the nature and size of its resources and place in the emerging pattern of international division of labour, including the terms of such participation.

However, the pressures to increase export earnings arise from many other sources besides repayment and debt-servicing like the leakages from investment multiplier and from the marginal propensity to consume. It is well-known that import-substituting industrialisation with accent on Department I industries increases the demand for import of capital goods, components, raw materials, technology, etc. Even many primary products owing to their level of production, their rate of growth, imbalances and periodic fluctuations continue to generate need for imports. All these have to be procured either by increasing exports or by further borrowing which only postpones and heightens the need to increase exports. As mentioned earlier, since absolute volume of imports can hardly be reduced by successful import-substituting industrialisation, atleast of the kind witnessed in countries like India, the need to increase exports to finance them must steadily go up.<sup>33</sup>

Therefore, export promotion to increase the country's foreign exchange earnings becomes an important pre-occupation of public policy. Self-reliance was taken to mean creation of such a magnitude of export earnings as can match the multifarious demands for foreign exchange, but now the latter have to include those arising from the pursuit of self-reliant development through import-substitution in the medium or long-run through initially (i.e. short-run) increased reliance on imports. In fact, since the bulk of external credits were contracted on government account, the debt-servicing charges



lock up a good part of the budgetary resources of the poor, borrowing countries' governments, reducing the "freely" available part of public resources for fresh investments.

In this way not only the process of expansion of public sector through fresh public investment is checkmated, but by emaciating the main source of fresh investment, the overall growth dynamics of the economy comes to suffer. In so far as public sector is an important prop for SRD, owing to its role in reducing the sphere of operations for TNCs in high technology, Department I industries alongwith its countervailing role vis-a-vis domestic big capitalist<sup>34</sup> and "the somewhat limited but nevertheless real autarky of public sector managers, who often follow the growth logic of their huge corporations"<sup>35</sup> in order to strengthen structural and technological independence, its curtailment owing to fiscal impact of extended borrowing weakens the drive towards SRD.

Export-promotion can be an unexceptionable objective for a country whose own material and technical base for extended reproduction is weak, fragmented and dependent on external supplies. However, it must not be forgotten that these structural and technical weaknesses arose from a colonial, lop-sided pattern of growth of Third World countries as an integral part of the global processes of capital accumulation and economic expansion.<sup>36</sup> The pursuit of export-promotion in the post-colonial era, therefore, has also simultaneously to be a process of redressing such structural imbalances by

diversifying the production base through fuller utilisation of the resource potential of the poor economies. On the contrary, if export-promotion becomes the basis for further expanding their primary producer character, it will deprive the poor economy of relatively higher value-added lines of production. Besides, the structural-technical weaknesses will also tend to persist giving rise to unequal inter-relationships.

Thus for reasons of economic development and in order to do away with the disadvantageous position involved in specialisation in primary production for exports, it was essential that in the post-independence period, the ex-colonies move away from such dependent forms of export production, and develop capacities for local processing and manufacturing. However, the new urgency for exports in order to finance external borrowing led to renewed stress on increasing primary exports at least in absolute terms if not relatively.<sup>37</sup> The change in relative proportion of primary exports is also connected with the changed industrial structure of metropolitan countries, showing relatively lower importance of the primary imports from poor countries, except for energy sources and import metals.<sup>38</sup> As a result, such production has not only continued but as a matter of fact, has increased, without developing internal forward linkages.<sup>39</sup> Since such production was destined for unfavourable metropolitan markets, it could not obtain wherewithal for increasing productivity.

In sum, these processes lead to the emergence of a

certain kind of export fatalism, preventing the poor, borrowing countries from breaking away from the colonial pattern of foreign trade. Despite the growth of non-conventional, manufactured exports from many poor countries like India, the absolute volume of primary products' exports increased. Thus an important characteristic of dependence of the poor countries persisted. Since conventional exports could not generate all the foreign exchange needed, the mechanism adopted for export promotion too acquires importance.

To begin with, there is a domestic public financial resource cost of a given package of measures for export promotion.<sup>40</sup> To the extent, these measures involve relative cheapening of poor countries' export commodities and services, there is imposed a real cost on the economy vis-a-vis the countries importing from them. The public financial cost is in terms of home currency as well as foreign exchange. The marketing and export promotion costs for programmes launched outside the country and the need to go in for imports to generate additional export production capacity entail a reduction in the net export earnings so generated. In plain words, export promotion also costs foreign exchange, leading to successively increasing reduction in the net foreign exchange contribution from additional measures for export promotion. All these tendencies reduce the effectiveness of exports.

The composition of exports and many-pronged drives to



raise their volume, in the present context of international economic relations by reducing the effectiveness of exports, tend to worsen the terms of trade. Among many factors which contribute to this result, a none-too-insignificant role is played by sizeable and sustained external borrowing, which imposes inflexible and rising debt-servicing obligations giving added impetus to the drive for enlarged export-earnings. Since debt-service ratio is not to be allowed to rise to disturbingly high levels, while higher volume of borrowing is undertaken to meet rising import surplus and repayment obligations (in its turn increasing total outstanding debt and volume of debt-servicing charges), increasing export earnings become the main means of restraining debt-service ratio.<sup>41</sup> Thus one can see a link between external borrowing and worsening terms of trade. As Kalecki argued, "an adverse shift in terms of trade cancels the effects of the inflow of foreign aid and, what is more, must be compensated by a continuous inflow of that aid as long as the worsened terms of trade do not improve."<sup>42</sup> Thus, one can see how external borrowing tends to be self-defeating, particularly from the viewpoint of SRD, owing to worsening of terms of trade caused by onerous repayment obligations.

As net capital inflow increases, as greater emphasis is placed on initial imports to ultimately end the dependence on imports, as increasing export efforts involving rising domestic and foreign real and financial costs have to be

mounted, a country reaches the unenviable position of having to commit a significant part of its total annual inflow of foreign exchange to these committed uses. This leaves little "free" foreign exchange and the progress of import substituting development and industrialisation becomes contingent upon availability of additional external credits.

Even in financial terms, the net annual inflow through credits and outflow through debt-servicing keep moving disturbingly close to each other. In fact, it has been shown that if gross inflow remains constant, the rising debt-service charges may outstrip the constant inflow in course of time making net transfers negative.<sup>43</sup> It means that the poor countries have fallen in the debt-trap and will need increasing volume of gross borrowing, i.e. borrowing must increase at an increasing rate constantly repeating the sequence of consequences amounting to push SRD in the background.

The impact of the absolute size and continued reliance on external debts on the balance of payments of the borrowing poor countries, particularly those facing a difficult terrain in expanding their export earnings, creates such serious problems as make even interest free soft-loans<sup>44</sup> a fearful burden. Afterall, the size of debt service payments depends not only on the rate of interest but also on the size of external loans. True, the elimination of the burden of interest rate payment lightens the consequences. However, not only repayment but the leakages from the outlays on such

externally financed projects, and the problem of creation of planned export capacities not necessarily based on the country's own export potential but based on the needs and demand of the external markets (which pre-empt the use of investible resources away from domestic needs) make the recipient poor country move away from the course destined towards SRD.

The foregoing analysis brings out some important implications of a specific concept of SRD for a poor country which in the process of attempting to overcome its characteristic constraints (mainly savings, foreign exchange, food and capital goods constraint) adopted a short-run reliance on sizeable and sustained external borrowing. In so far as the concept of SRD legitimatised the continued resorting to external financing of development projects as a tactical line, it did not focus on some of its own inherent implications.

#### IV

Tactical financial dependence in the short-run may have arisen from the pursuit of import-substituting industrialisation, the latter being derived from the strategic perspective of SRD. It is also important to call to attention the limited contribution which import-substitution may possibly make to SRD. For one thing, import-substituting industrialisation, which "deals only with protection of production"<sup>45</sup> tends to be imitative through two important channels. One, as far as investment proposals are concerned, the size of ongoing imports



to be displaced itself becomes a nearly complete justification for such projects. This is reinforced by the use of world prices in project appraisal. Thus many questions about the desirability of the project from long-term social point of view including SRD are not asked. Consequently, it is possible that an import substitution project may have backward linkages in such intermediate goods which on account of patents, technology, size of the market, etc. may dictate continued imports and through a combination of monopoly-power, transfer pricing and differential bargaining power may make a sizeable draft on foreign exchange resources.

Then, many import-substitution projects may be based on foreign technical, financial and entrepreneurial resources either directly or through collaborations/joint ventures. Since protective tariff was an important instrument for facilitating import-substitution, a part of such investment basically amounted to jumping the tariff wall in order to benefit from tariff protection. Since the emphasis was on national location of production (the fetish of production within national frontiers), questions concerning ownership structure, product-mix, technology, management and long-run effect on inter-industry balance were not asked. This kind of an approach was also a corollary of the imitative GNP concept of growth with its entourage of assumptions. In any case, in so far as SRD is intimately connected with issues far wider than just import-substitution, the imitative pattern of import-substituting industrialisation with its concomitants

of foreign capital, technology (covering both product-mix and process of production), enterprise and management made little contribution towards it.<sup>46</sup> The divorce between the tactical and the strategic aspects of SRD was, however, not confined to the issues listed above. The consequences of tactical financial dependence in terms of accumulation of sizeable outstanding external debts and continuance of non-zero net borrowing are seen in terms of increased external orientation in the sense of increased attempts to cater to foreign markets. The whole exercise is coming home to roost for the strategic objective of SRD.

This is because it failed to take note of the arithmetic of mounting debt-servicing charges flowing from sizeable and sustained borrowing over a couple of decades. This becomes more particularly serious in the case of those countries whose export sector is a relatively small part of the national economy (as in India), and, given its historical place in the world economy, (seen in terms of "increasing marginalisation of the Indian economy vis-a-vis the international economy")<sup>47</sup> is faced with relatively inelastic and limited growth prospects in its foreign exchange earnings. Then, it did not take into account the limited potential which the country's resource endowment imposed (through a configuration of demand-supply relationships flowing from the structure of the economy) on the possibilities of financing self-liquidating projects like those available to OPEC countries.

In any case, if such a course would have been concentrated over a short period of time leading to a sharp spurt in import-substitution and/or export promotion, yielding sizeable export-surpluses, then it may possibly have contributed to SRD. Such a strategy, in all probability, would have needed rather high rates of capital accumulation, assigning to net resource transfer from the rest of the world the role, not of being a substitute for domestic resource mobilisation, but of being a critical supplement to the former.<sup>48</sup> The resulting high rates of growth may have created conditions necessary for the qualitative transformation of the economy from being a dependent to an independent economy,<sup>49</sup> which is implied under the objective of SRD. However, there would have been some formidable obstacles to the implementation of such a strategy.

From the foregoing it may be inferred that sustained and sizeable borrowing from abroad increases the long-term export orientation (as reflected in the proportion of required exports to GNP) of the economy. This, in turn, has clear implications with respect to the emerging structure of investment and production, which have to accord high priority to export-oriented activities. As seen above, it also necessitates the diversion of a part of savings to finance debt-servicing. In this way, the particular variant of SRD tended to give a specific form to both the rate (on account of the critical role of the size of external loans becoming available) and pattern of growth which is at variance with that implied under SRD.



## V

From the point of view of long-run implications of the specific variant of SRD under discussion, it is important to see how it is likely to affect the size of internal markets because the development of home market provides the fundamental, domestic basis of capitalist development.<sup>50</sup> In so far as such external finance supports import-substitution, it caters to pre-existing markets. However, this investment also produces linkages and multiplier effects, tending to enlarge home market. The extent to which this market potential is actually utilised to support development is, however, a function of the resilience in the rate of accumulation and structure of investment. In any case, repayments and interest payment produce negative multiplier effects which, to a certain extent, go to counter the positive effects of the initial inflows.

In addition to the above, it is suggested that external finances enable a country to push up its rate of investment beyond domestic availability of savings. To this extent, it enables a country to have either a large market for consumer goods or for producers' goods. The above savings contribution argument is, in a sense, derived from the calculation of grant element in foreign borrowing through discounting debt-servicing at a standard 10 per cent rate of discount and comparing it with the gross inflow of funds. Such a measurement of the "financial" value of external borrowing must not be confused

with its NPV in terms of social cost-benefit analysis which will have to go into many more questions concerning externalities, social costs and benefits. Hence, it might be too simplistic to regard foreign borrowing as a contributor to the growth of home-market without taking note of the leakages to external markets and other effects on the national economy.

In any case, this is a short-run impact because to the extent a country begins to discharge its debt servicing obligations, it has to increase the rate of savings without being able to use it for fresh capital formation.<sup>51</sup> In brief, external financing can at best increase the home market in the short-run and, over a reasonably long period of time, repayments offset this impact. The net impact on the size of the home market would, of course, be a function of the difference between the values of pre-and post-repayments marginal propensity to consume.

To the extent this saving can be converted into an export-surplus, the home market will tend to expand. However, as our analysis of import-substitution and industrialisation policies show, the structural basis for such export surplus does not easily develop in most developing countries. Consequently, they remain net importers without approaching the opportunity to obtain export surpluses.

However, it is also possible that externally obtained resources largely substitute domestic savings.<sup>52</sup> In this way they contribute to a higher level of consumption (at least

equal to a fraction of borrowing) than would have been possible in the absence of foreign borrowing. To this extent, it contributes to larger home market for consumer goods in the immediate run. Such larger initial domestic consumption (irrespective of its character and composition, whether of necessities or of luxuries) does not add anything to the capacity to service the debt and hence, in the long-run, leads to a net reduction in the size of the home market when debt-service payments begin. On the other hand, the part of foreign borrowing which is invested creates additional production capacity generating atleast a part of the domestic resources counterpart of debt-servicing in so far as there is a net surplus produced through such as investment.

In so far as external borrowing finances a country's import surplus, it amounts to transfer of demand to external trading partners. In fact, one important factor which makes developed market economies lend to poor countries is to increase the demand for their national output. The opposite is the result for the size of borrowing country's home market; the market gained by the lender is the market lost by the borrower. The protagonists of protection in the richer countries consider imports from the poor countries as causing a certain order of disruption to their domestic markets. Similarly, their lending to the poor countries in order to finance their own exports to the countries, bring about a disruption of the latter countries' domestic markets.



Yet another manner in which external borrowing may affect the size of internal market depends on the fact whether it happens to displace private domestic investment. The point is that if external funds were to finance investment projects which otherwise would have attracted, probably with some supporting policies of the State, private domestic investment, then the external dependence induced by external borrowing, both in the short and long-run, indicates preference for externally supported public investment over the growth of indigenous capital, without necessarily contributing to enlargement of home market.

It is, indeed, highly speculative whether such private investments could have been induced. Nevertheless, it is clear that such private investment was not forthcoming in the normal course of market response because if such self-generated capital accumulations were taking place, there would hardly have arisen the need for state-sponsored capital accumulation.<sup>53</sup> However, the option to go in for encouraging domestic capital formation need not necessarily be a substitute for external borrowing; in fact the latter was mainly a means for bridging the foreign exchange gap arising in the process of planned growth through both public and private investment.<sup>54</sup> Hence this consideration is unlikely to detract from the effect on the size of the home market generated by the savings contribution role of external borrowing. However, opposite is the effect on account of import-surplus role of such borrowing.

Thus, one sees that the variant of SRD under discussion can, at best, have some rather limited, short-run effect on the enlargement of the home market, which may be offset by import-surplus financed by external borrowing. Then, it has definite export-orientation implications inhering on account of repayment obligations. And these latter are counter-productive from the point of the size of the home market. Not only export-orientation may reduce effect on the size of home market, but, as seen earlier, even import-substitution may not add to the size of home market. Moreover, if aid is used for financing the production of luxuries, with high capital and import-intensity, its effect on the size of home market will be further limited.

## VI

As a result of the neglect of such issues and methodologies for planning the use of land appraising the role of external borrowing, "import-substitution soon reached the limits imposed by market size. It also turned out to mean an even greater dependence on imports. It was proving impossible for the infant industries to grow up. A critical analysis of the problems of import-substituting capitalist industrialisation evolved into what was to become dependency theory".<sup>55</sup>

The process of SRD, linked with capitalist, import-substituting industrialisation, based as it was on the specific variant under discussion so far, ran into rough waters leading

to a situation in which no developing market economy has achieved independent, capitalist development since the last war.<sup>56</sup>

A critical analysis of the operation of the specific variant of SRD links up with the concept of theory of "dependence". This discussion, in so far as it goes into various aspects of the concept, its historical roots, mechanics of operation and implications, is likely to have a bearing on an alternative concept of SRD which avoids the cul-de-sac reached by the variant of SRD we have discussed. This is so because SRD is, in a substantive sense, connected with the process of breaking loose from the dependency nexus and evolution of an independent basis for development.<sup>57</sup>

One can argue that atleast in so far as SRD was considered an essential attribute of development and in so far as tactical financial dependence was adopted as a means to SRD, there was atleast an implicit recognition of the dependency nexus. The nationalist articulation during the colonial era was, after all, centred on such issues.<sup>58</sup> However, it appears that behind many a concept of SRD, the implicit concept of dependence was of a descriptive kind.<sup>59</sup> Owing to non-recognition of the theoretical bases of dependence and the processes by which dependence is reproduced, links between short-run, tactical dependence and long-run pursuit of SRD could not be incorporated in the policy-mix derived from the descriptive concept of dependence or dependency approach to underdevelopment.<sup>60</sup>



A recognition of such theoretical bases and processes in their historical context would indicate that in the productive and financial spheres of developed capitalist countries were inherent certain forces which subjugated the modern capitalist and pre-capitalist sectors of the poor countries according to the specific needs of the former in the colonial phase of the world economy.<sup>61</sup> The unequal and inequitous integration of the poor economies with the developed economies generated such external, general conditions which dominated the internal or specific conditions of development of the poor countries. The tactical, short-run devices adopted for SRD had not only to recognise this legacy, but also the changes in the internal and external structures and compulsions of both the groups of countries. Because it is these forces which would determine the specific forms and mechanism of reproduction of dependency relations. Attainment of political sovereignty, the emergence of local power centres and the desire to bring about development initiated a search on the part of the poor countries to find a new conjuncture of internal and external conditions for development. On the other hand, loss of colonies, new phase of state monopoly and post-industrial development, particularly the sweep and pace of technological development, the challenge posed by the emergent socialist countries, etc., made the metropolitan countries seek a new set of relationships with the poor countries. Any pursuit of SRD must be based on a recognition of such emergent forces.

The driving forces emanating from the productive and financial sectors of the developed market economies continued to determine the dependency nexus between them and the poor countries, though the needs and compulsions of the two sectors had undergone a change. In addition, these external conditions had to interact with a different complexion of the specific internal conditions obtaining in the poor countries. The pursuit of SRD in this context was hampered by a complex of factors, like the descriptive, current BOP deficit based concept of SRD, the neo-classical paradigm for development planning (a part of cultural dependence), internal power-balance and new areas of mutual accommodation between national and multinational capitals.

In this situation, the poor country's need to fill in the twin savings and foreign exchange gaps through external borrowing under the framework of tactical thrusts towards SRD matched admirably with the needs of the developed countries to find outlets for their growing financial resources (export surpluses) which also happen to generate demand for utilising their excess productive capacity.<sup>62</sup> A new type of integration of the two types of economies was initiated under the pursuit of SRD by the poor countries and the foreign "aid" programmes of the rich countries. As a general framework, these new relations will generate a new kind of dependency in which "the backward countries will tend to be characterised by increasing indebtedness and by a productive structure which leads them to consume what they do not produce, and to produce what they do not

consume".<sup>63</sup> Obviously, in different countries there will evolve specific variants derived from this general tendency of increased external orientation of the production structure and disjunction between production and consumption. In fact, the external orientation of production need not be a quantitatively dominant features of the emergent production structure; the qualitatively critical role of such external linkages is enough to secure a triple alliance of the multinational, national and local capitals.<sup>64</sup>

One has to comprehend the implications of the new international relationships particularly as a result of the readjustments undergone by the metropolitan countries to the loss of empires, and change in the role of developing countries to the metropolitan centres, for various concepts and formulations about SRD. The starting point for this exercise may well be provided by the proposition that the colonial and imperialist relationship had strong streaks and rich sprinkling of non-economic factors of the kind generally associated with the process of primitive accumulation.<sup>65</sup> These non-economic factors operated on the economic variables through the use of unequal relationships but buttressing the economic nexus by non-economic forces and processes. The international economic arena, in the wake of capitalist development in the West, came to be characterised by a certain kind of post-feudal, pre-capitalist relationships. In other words, the kind of capitalist internal economic relationships which emerged in the metropolitan centres were not replicated in the process of



uneven development of world capitalism. The end of colonies and the forces culminating in the second world war saw almost an end to such pre-capitalist international relationships.

As opposed to the needs of the earlier phase of world capitalism, its present post-colonial, neo-imperialist, state monopoly, collective capitalist stage (with accent on non-individualist collective capitalist action) or, in brief, international state collective monopoly stage, demands world capitalist integration, i.e. bringing about and strengthening capitalist economic development (of the kind Brazil, Taiwan, South Korea, etc. have experienced) which can transform the pre-capitalist international economic relationships into full-blooded market capitalist relationships. This necessarily involves uneven levels of development generating and strengthening capitalist international economic relationships. The concept of New International Economic Order (NIEO) has its strongly diverse forms mainly because the developed market economies take NIEO to mean capitalist international economic relationships as different from pre-war non-capitalist, post-feudal international economic relationships. This obviously falls short of a new framework of international relationships which would do away with ingrained inequities.

In stressing the role of market-based capitalist relationships on a global scale, it is not suggested that political interferences and cloak and dagger are totally stamped out.<sup>66</sup> No real capitalist model ever totally abjures the use of

coercive powers for ever even in internal social relationships. Thus it is not implied that the pursuit of giving capitalist form and content to international economic relationships implies that one has seen the last of gunboat diplomacy. The point is that, by and large, reliance on the economic mechanism, like through permanent international debt-bondage (characterised by constant borrowing, even in order to repay, incapacity to fully repay the loans in foreseeable future and constant pressure to sell their goods and factors of production in order to sustain this relationship) is the form preferred by dominant international capital for extended reproduction of capitalist economic relationships vis-a-vis the Third World.<sup>67</sup>

For the developed countries, the rationale of such "capitalist" forms of international relationships, given the basic fact of widely disparate levels of development is that such relations are, ex-definition, dominated by the economically stronger party. Despite the increasing marginalisation of the Third World in international production, consumption and trade structures, a framework of inequitable international economic relationships is required by the developed countries in order to resolve their domestic contradictions and overcome internal constraints through the use of the international relations capable of being shaped according to the will and need of the stronger partner. This pursuit requires a network of countries at lower levels of development and enmeshed in capitalist international economic relationships.

These processes bring about an integration of the dominant classes of the Third World countries in the framework of international capitalist relationships, affording them new and ample opportunities and means (through technical-financial collaboration) for expansion. To put it another way, the transformation of international economic relations from pre-capitalist to capitalist framework alongwith national political sovereignty reduce the areas of conflict between the dominant classes of countries at disparate levels of development and the process of capitalist development underway in the Third World opens up areas of mutual support. Both the groups regard the availability of international resources, avenues and options an essential pre-requisite facilitating growth and overcoming numerous constraints. Their joint ventures tend to obliterate the distinction between local and alien capital and enterprise. In so far as genuine SRD accords primary to the use and growth of local resources by local organisations for meeting local needs, it comes in conflict with the market, private-enterprise, profit-motive framework of capitalist development which cannot adopt criteria derived from SRD in its process of bringing about development. More particularly, since world capitalist development tends to become an increasingly integrated process, encompassing both the developed and developing countries, SRD tends to become inconsistent with the global operation of market forces.

Hence, short-run, tactical perspective of SRD and its



general acceptance as an objective of state sponsored processes of capitalist development have to be viewed at two different levels. Our analysis of the short-run and long-run structural implications of tactical SRD with external borrowing as its king-pin shows it clearly that the latter is a powerful instrument for implementing the lines and clues derived from the current global perspective of the TNCs and multilateral aid-agencies. As a result of such a perspective, the content of SRD was made consistent with deepening and widening international economic ties. Since dependence was not posed as synonymous with inequitous international economic relationships, but rather with the volume, terms and duration of external borrowing, the concept, theory and policies concerning SRD acquired content consistent with the interests of dominant classes in both the developed and developing market economies.<sup>68</sup> Given such an operational mechanism of SRD, its acceptance as an integral part of the goal-structure not only kept alive the legacy of anti-colonial struggle but tended to present a general national perspective on development in terms which seemed to transcend class-issues and class divisions.

As a result of such external orientation, a developing country will find its scare investible resource pre-empted for export-production based on foreign know-how, patents and intermediate goods. Then, as far as domestic consumption is concerned, given her poverty and preponderance of food in average consumption basket, either direct food imports, or

indirect entry of imported inputs in food production (fertilisers, pesticides, farm machinery, power equipment and energy sources, high-yielding varieties of seeds etc.) and import of other foods (like edible oils and pulses) will give rise to a new and somewhat camouflaged form of dependence.<sup>69</sup> The impact of tariff-wall jumping import-substitution in the field of elitist consumption,<sup>70</sup> reflected in home production of such items by multinational capital and their needs for maintenance imports of intermediate goods, making heavy draft on foreign exchange through many open and not-so-open devices also go to reproduce the dependency nexus.<sup>71</sup> Moreover, the importance of such deployment of foreign exchange is derived from the fact that being committed uses of limited foreign exchange (in the name of utilisation of existing capacities and allowing such outflows of foreign exchange for maintaining congenial atmosphere for further foreign borrowing and investments), they restrict the availability of options which development planners may like to have with the use of foreign exchange free from such encumbrances.

In any case, both public and private sector industries continue to look forward to foreign technology for modernisation and higher productivity. With technology export being the leading sector in many of the developed capitalist countries, such import-substituting, export-promoting industrialisation fits in very well with the requirements of asymmetrical dependence. It may well be mentioned that the asymmetrical relationship emerges from the relative bargaining strength,

arising from the nature of the technology market and the marginality of anyone country like India as a buyer, particularly in view of the simultaneous pursuit of industrialisation by a large number of Third World countries.

The impact of these external conditions of development derived from the dependency nexus is felt in reducing the degree of freedom with respect to the specific, internal conditions of development. The rate of savings and capital accumulation is reduced, directly through accumulated debt-servicing and indirectly through fungibility of credit; its pattern is distorted through committed uses which the foreign creditors approve of and its net volume is reduced through hidden charges and induced outflows. Foreign financing and technology not only increases the capital-output ratio<sup>72</sup> but turns out to be inimical to employment generation.<sup>73</sup> This also becomes a factor in limiting the expansion of the home market. The imitative pattern of import-substitution restricts the use of indigenous resources as the basis for industrialisation, reducing the linkages and multiplier effects of investment. It fosters a pattern of consumption which is ostentatious and adversely affects savings in so far as it eases the pressures on the fiscal system and industrial structure to raise resources and curb the consumption by the well-to-do. The hidden strings attached to loans strengthens private monopolies in organised industries, limiting markets, encouraging wasteful consumption and acts, in general, against expanding the entrepreneurial base, particularly from production-



based strata of society.<sup>74</sup> In brief, there develops, as a result of tactical financial dependence, an excessive importance of the general, external factors of development which rather than being the engine of growth, turns out to be a fetter on growth.

The excessive reliance on external factors of development stifles the internal factors of development. Tactical dependence engulfs the poor countries in the debt-trap or the vicious circle of external borrowing. The ligatures binding the poor countries in asymmetrical relations restrict their options and autonomy in much the same way as the India's rural poor are tied in the knots of debt-bondage giving the creditors unequal power over the debtors' resource (labour and natural resources), markets (i.e. purchasing power) and the speed and direction of development. The technological-financial dependence, (directly through ODA, or through multilateral agencies and multinational corporations) acting in a mutually reinforcing manner prevents emergence of inter-dependence for reciprocal development.<sup>75</sup> In so far as public sector investments in Department I impart structural strength to the economy, the realisation of the potential remains a function of the role of internal factors of development, which are placed in a secondary position owing to asymmetrical external relationships.

## VII

From the foregoing, it follows that SRD is a process and not only an outcome in which the relative autonomy of the internal development options prevails and is supported and supplemented by mutually beneficial relations among various countries at different levels of development and with different socio-economic systems.<sup>76</sup> The role of international trade and economic relations remains one of taking advantage of mutual complementarities in order to facilitate transformation through trade to increase options in addition to transformation through production. This can arise when there is planned determination of the international economic relations in a framework of a strategy of development based basically on internal conditions and mechanism of development, supported in a tactical manner by external linkages which are consistent with the strategic perspective.<sup>77</sup>

A whole set of internal political and economic structure and balances have to provide the basic backbone for the pursuit of SRD.<sup>78</sup> The fact of political sovereignty and the international balance of power are factors potentially helpful in this respect. But one has to reckon with the hard facts of the internal power structure in the poor countries and its increasing mutual accommodation with the external forces to whom the theme of SRD is a discordant note. The pervasive influence and constraints imposed by the present economic balance, unequal distribution of the wherewithals of develop-

ment, their reinforcement by political power relations and cultural domination in the field of knowledge and ideas, more particularly about development itself, are a formidable set of obstacles facing SRD. No elaboration of the concept and theory of SRD is benefited by ignoring or underplaying the role of such powerful constraints.

Given the aforementioned essential ingredients of the concept of SRD and its linkages with internal processes, it can be maintained that the variant of SRD based on the need to meet the recurring current deficit in the balance of payments of the poor, ex-colonial countries through external borrowing took an over-blown and isolated view of the criticality of such deficits. It failed to take note of the overall BOP implications of such borrowing based on the dynamics of debt-servicing, emerging dependent production structure and limitations of domestic market.

Therefore, it may be inferred that a concept of SRD based not on external viability on the current account but in the overall BOP may remove the restrictive and self-defeating character of this concept of SRD. Since it also takes into account the transactions on the capital account, an overall and balanced view of external borrowing and debt-servicing obligations showing up net transfers (alongwith the inflow of private foreign capital and outflows engendered on this score) may be taken.<sup>79</sup> If attempts were made to evolve and operationalise such a composite view of external



viability in the overall BOP, it would have been found that the ramifications of this concept of SRD inform the entire range of issues concerning the strategy of development. However, an appropriate working out of the implications of this concept would have to go beyond the concern with balancing of BOP.

For example, despite its overt concern with balancing the current account of BOP, the GNP based variant of SRD under discussion had to devote attention to import-substitution (particularly in the field of food production and heavy industries) and export-promotion. However, it tended to look at these issues in terms of meeting the savings and foreign exchange gap without explicit and analytical recognition of the strong linkages of SRD with the structure of production, ownership pattern, technological choices, employment generation, development of home market, methods of resource mobilisation, etc. To a certain extent, this is inherent in the "openendedness" of the concept of SRD, with "a certain nucleus of content" which needs to be given "more precise connotations".<sup>80</sup> However, this much is clear that essentially SRD is concerned with the primacy of indigenous factors and forces in the process of development. The aforementioned factors impinge on the process of development as well as on the international linkages of the economy. Hence the concept of SRD has to be linked up with all these issues. In other words, the pursuit of SRD is one critical element of the overall strategy of development and has to be viewed as its integral part.<sup>81</sup>

From the above perspective, it follows that the narrow variant of SRD did not take into account its intimate linkages with an overall strategy of development which has to be broader than mere GNP based strategy of growth. However, the concept of SRD rooted in holistic and historical view of development cannot equate it with autarky or self-sufficiency.<sup>82</sup> Let it also be mentioned that what follows from the present argument then is not a blanket case against external borrowing as such.<sup>83</sup> What is sought to be argued is that the critical, tactical dependence of SRD on external borrowing in the context of the GNP growth based strategy of development neglected the inherent implications of continued and large scale foreign borrowing on its own avowed goal-structure.

What is sought to be derived from the argument presented so far is that the tactical external borrowing has to be highly discriminating, short-lived, temporally well-spaced in line with planned growth of export earning or reduction in import spendings (avoiding bunching of maturities) and in a planned way linked to export-promotion and import curtailment prospects so that the loans become self-liquidating. It is on account of such considerations that it has been argued, as mentioned earlier, e.g. by Kalecki, that use of foreign aid as a tool of development policy is one of the important factors necessitating comprehensive macro-level planning in a poor country.<sup>84</sup> It is such a planned perspective which is essential for making

external borrowing a supplement rather than a substitute for domestic savings. It follows, therefore, that the "debt-problem" and its antithetical relation to SRD does not arise from external borrowing as such, but springs mainly from the overall strategy and political economy of development.<sup>85</sup>

### Notes

1. As Kim, G.F., says, "the struggle for strengthening national independence is indistinguishable from the struggle for social progress." Quoted by Clarkson, Stephen, in The Soviet Theory of Development : India and the Third World in Marxist-Leninist Scholarship. Macmillan, Lond, 1978. p.135. According to these views, political independence does not abolish backwardness and since the latter is a direct consequence of colonialism-imperialism, the Third World has to decide "how it will relate to the outside world, on what terms it will trade and on what terms it will receive foreign capital in the future". (Ibid. p.136).

From this perspective, two alternative views on economic independence follow. According to one, economic independence means breaking off the economic relations with the world capitalist system. According to the other, owing to national equality derived from political sovereignty and owing to reduced economic need of imperialist powers for colonies and semi-colonies, economic independence means, "regulating, not breaking relations with the world capitalist system". (Ibid. p.137). In any case, "self-reliance" is not a new way of "bridging the gap", "catching up" in the sense of equalising GNP/capita or some similar measure". Galtung, Johan, "Trade or Development : Some Reflections on Self-Reliance" in Economic and Political Weekly (EPW hereafter), Annual Number, 1976, p.208, thus, SRD has to be non-imitative.

2. See, Nyilas, J. (ed.) Theory and Practice of Development in the Third World, Akademia Kiado, Budapest, 1975. Also Szentes, T. The Political Economy of Underdevelopment, Akademia Kiado, Budapest, 1971.



3. In a report on a Symposium, A. Parthasarathi writes, "As a result of the disappointing experience of the last two decades, the concept of SR (self-reliance) sometimes tends to take the form of an exhortation, a political and motivational force, a normative concept with a powerful ethical component to it". "The Role of Self-Reliance in Alternative Strategies for Development" in Pugwash on Self-Reliance (based on the Symposium held in Dar-es-Salaam, Tanzania, June 2-5, 1975), Ankur Publishing House, New Delhi, 1977, p.14.

4. Self-reliance, even when not identified with autarky, may give a static flavour in so far as the level and nature of external economic relations are related to a given level of development rather than to rising levels. Hence in countries seeking to attain higher levels of development, self-reliance by itself may not capture all that is implied by SRD.

5. The contrast between underdevelopment and self-reliance has been discussed by Stepanov, L.V. in a book in Russian, which is discussed by Clarkson, S., op cit. pp.137-139. He poses the question: "which has priority - economic growth, to liquidate backwardness and raise national productivity . . . , or prior abolition of exploiting links with imperialism, thus creating a base for the free development of the national economy?" His answer is "economic growth and national liberation must proceed together: The efforts made by the peoples to develop their national economy and their fight to suppress imperialist exploitation are inseparable parts of a single process". (p.138).

6. There is a huge body of literature on the unequal relationship of the Third World with the First one. The generally described features of this unequal, dependent relationship are: weak control over their national resources, high dependence of exports on conditions in external markets, great need for foreign finance and technology, increasing role of foreign capital and enterprise, special arrangements with groupings like EEC, linkage of their currency with powerful currencies of former colonial powers, etc.

7. The developed market economies exported to others in the same category 66-67 per cent of their total export in 1970. The share rose to nearly 70 per cent in 1976. U.N. Statistical Year Book, 1976, Table 150.

8. As the Brandt Commission Report puts it, "A refusal to accept alien models unquestioningly is in fact a second phase of de-colonization. We must not surrender to the idea that the whole world should copy the models of highly industrialised countries". North-South: A Programme for Survival. A Report of the Independent Commission on International Development Issues, Pan Books, London, 1980, p.23.

9. Cf. "Indigenous does not mean, as yet, appropriate technology. Cultural dependence has alienated even bonafide researchers to the point that they propose on their own, and in good faith, solutions that in reality are imitative of the North." Ignacy Sachs : "Some Observations on the Brazilian Experience of Self-Reliance" in Pugwash on Self-Reliance, op cit., p.234.
10. First Five Year Plan, Planning Commission, Government of India, New Delhi, 1952, pp.26-27 and pp.62-65 took this position. As North-South : A Programme for Survival, op cit. "the major share of the burden for effectively attacking poverty lies with them, (developing countries), their peoples and their governments".
11. "A deepened consciousness of their situation leads men to apprehend that situation as an historical reality susceptible of transformation", Paulo Freire, Pedagogy of the Oppressed.
12. The question of technological choices, like many other questions of development strategy, has been falsely posed as one of factor-intensities alone. It is a many faceted question and no universal, single feature can answer the needs of development, particularly of SRD. The correct approach to technology has to be one of walking on many legs.
13. This view seems to be based on the notion that the developing countries have to face an import-surplus if they go in for industrialisation, particularly emphasising the production of producers' goods because the poor countries do not have adequate domestic capacities in these areas. That is why in the initial phases foreign aid (external credit on soft terms) is needed to finance the import surplus.
14. Supposed savings constraint faced by developing countries on account of low per capita income has come under many attacks. It has been seen that as compared to the late forties' - early fifties' nearly 5 per cent rate of savings, the savings ratio for developing countries during 1960-65 was 16.7 per cent and growing at an average yearly rate of 0.8 per cent during 1971-73, it reached the level of 20 per cent during 1971-73. Thus savings cannot be seen to make much difference to development. In fact, Joan Robinson and John Eatwell, "Introduction to Modern Economics," New Delhi, 1974, consider the low average income low savings argument "sophistical", (p.333). Lewis, W.A. has also argued that, "If income per head were the chief determinant of self-sufficiency in finance we could not answer the question posed by opponents of foreign aid namely, if Britain and France were saving enough to be lending in the middle of the 19th century, when they were not much richer than Ceylon or Brazil is today, why cannot the developing countries save for themselves all the capital they need? The Evolution of the International Economic Order Ludhiana, 1978, p.35.



15. See, Chenery, H.B. and Strout, A. "Foreign Assistance and Economic Development", American Economic Review, September 1966, pp.679-733. According to them, foreign aid can also help meet the shortage of skills.

16. Cf. "The full set of requirements (for development) need only become available from domestic resources as the inflow of the foreign resources is reduced. To achieve this result, the additional resources produced through more rapid growth must be used to make good the deficiencies which are temporarily being supplied, from outside assistance." (emphasis added) Ibid. p.618.

17. The inflow of financial resources from abroad may take many forms, like direct investment, grants, official development assistance ODA, i.e. inter-government loans. In the present paper, we are concerned with ODA only.

It has also been maintained that "The current scope for direct foreign investment is rather small (p.44) and that "The developing countries will depend on foreign borrowing long after they have ceased to depend on foreign enterprise". (p.46). Lewis, W.A., The Evolution of the International Economic Order, op cit.

18. Grants as a percentage of total external resource flows to 86 developing countries from DAC of OECD came down from 35-6 per cent in 1965 to 14.6 per cent in 1974. Reported in Table 2.13 (p.83) in Abbott, G. International Indebtedness and the Developing Countries, Vikas, New Delhi, 1980.

19. Apart from the well-known paper by Chenery, H.B. and Strout, A. op cit. many others make this point. As Kalecki, M. puts it, "From these considerations we see that an inflow of foreign aid may be instrumental in stepping up the rate of growth of an economy faced by the barrier of foreign trade". "Forms of Foreign Aid : An Economic Analysis" in Essays in Developing Economies, The Harvester Press, Harrocks, 1976, p.68. Such a role of foreign aid follows from what Keith Griffin calls "The two-gap models" based on the orthodox macro-economics of savings and foreign exchange supplementing roles of foreign aid. See, Chapter on Foreign Capital, Domestic Savings and Economic Development in International Inequality and National Poverty, Macmillan, London, 1978, pp.57-74. The orthodox analysis is based on fixed technical relationships (e.g. the incremental output-capital ratio) and stable savings and import propensities". p.58. Even when some of the conventional analyses have seen the impact of 'aid' on 'development' to be negligible, they have persisted with their general propositions on the role of aid. For example, the Pearson Report says, "The correlation between the amounts of aid received in the past decades and the growth performance is very weak". Partners in Development, Pall Mall Press, London, 1969, p.49. Yet the Report went ahead to fix new, higher targets of aid flows.



20. For the story of rising debt-service ratios of the developing countries, see Abbott, G.C. op cit., pp.120-125. Seers, D. has said, "A large role for foreign capital tends to limit drastically the flexibility of trade"; "Patterns of Dependence" in Transnational Capitalism and National Development (Ed. Villamil, J.J.), Harvester Press, Hassocks, 1979, p.103.

21. Abbott, G.C. op cit., p.120.

22. Lewis, W.A., op cit., pp.60-61.

23. Ibid. p.61.

24. Often "aid" element of foreign borrowing is calculated by discounting the repayment schedule at a 10 per cent discount rate and subtracting from it the face value of the loan. In such exercises the output flows generated by aid are just not taken into account; only financial flows are counted. In any case, the "grant" or "aid" element becomes a function of the rate of discount chosen; the higher it is, the higher the "aid" component.

25. There is a large and growing literature which is highly critical of Aid. See, Lappe, F.M. and others Aid as Obstacle, Institute for Food and Development Policy, San Francisco, 1980. Hayter, T., Aid as Imperialism (Harmondsworth, Penguin Books 1971), Gonlat, D and Hudson, M., "The Myth of Aid : Hidden Agenda of the Development Reports", IDOC Book, 1970. Also Griffin, K. op cit., Chapter 3. Also Cheryl Payer, The Debt Trap the IMF and the Third World, Penguin, 1974.

26. The structural transformation of an economy through foreign borrowing to support import-substitution may not provide external viability, because history provides us with few such cases where import-requirements of an economy have fallen absolutely in the wake of successful development". Hence, "Gone are the days when it was so readily assumed the "import-substitution" by itself will be able to resolve India's difficulties with regard to her BOP". Manmohan Singh : "Self-sustained Growth by 1971? Its BOP Implications", Economic Weekly, Special Number, July 1962, p.1217.

27. M. Kalecki, op cit. p.90, defines effective exports as "The less the cost in local currency of a unit of foreign currency earned, the more effective is an export".

28. Illustrative of such domestic political economy limitations on finding fiscal resources for debt-servicing is the practice followed by many heavy-borrowing countries like India of going in for external borrowing to finance projects with no or little foreign exchange cost-component.

29. Cf. Kalecki, M. Ibid. p.69, who says, "comprehensive planning should be considered as a pre-requisite of any action aimed at a rational utilisation of available foreign aid."

30. See, Abbott, G.C., op cit., Chapter 4.

31. See, Griffin, K., op cit., Chapter 3. Also, Bhagwati, J., "The Socialist Pattern of Society and Foreign Trade", Economic Weekly, Special Number, July 1962, pp.1211-1212, shows that "we have thus witnessed willing investment of foreign resources in setting up luxury industries at home" (i.e. in India), p.1212.

32. In the bulk of international trade and growth theory, import-substitution and export orientation are posed as two dichotomous, bi-polar alternatives. From the position of what might be called "international trade-centrism", two alternative strategies, viz., import-substituting industrialisation strategy (inward orientation) and export-promoting industrialisation strategy (outward orientation) are derived. For a definition and listing of complementary policy-instruments, see, Kelkar, V.L., "Trade Policy" in India's Economic Policies (ed. Mongia, J.N.), Allied, New Delhi, 1980, pp.225-237.

As India's experience which simultaneously sought import-substitution and export-promotion, as all the plan documents show, (see, Kabra, K.N. "Self-Reliance in India's Five Year Plans" forthcoming in the Silver Jubilee Volume of the Indian Institute of Public Administration, New Delhi), neither the bi-polarity of the two nor their combination with a set of specific policy instruments, like market mechanism with export-promotion and planning with import-substitution, are sustainable propositions. Export promotion is "planned" in much the same way as anything else is planned in India and import-substitution is left to market forces in so far as private enterprise has been an equally, if not more, important instrument, for it. As Knall, B. has concluded on the basis of analysing the experience of Thailand, Malaysia, Singapore, India, Pakistan, Phillippines, "Import-substitution and export-promotion represent two sides of the development policy coin" (p.38) or "import-substitution and export-diversification are by no means mutually exclusive activities. On the contrary, they are rather complementary development strategies between which many inter-dependencies exist. On account of this inter-dependence, extreme development strategy positions (such as only import substitution or only export diversification, completely neglecting the other strategy) can create structures that are damaging to long-term economic development. A proper "strategy-mix" appears to be a much more reasonable (if not the only) approach to this problem" pp.25-26, (emphasis in the original). Knall, Bruno, "Conditions for the Success of Import-substitution and Export-diversification as Development Strategies in Asia" in Journal of the Nepal Research Centre, Vol.I (Humanities), 1977.



33. Cf. "Some of the difficulties that have arisen in the import-substitution process can be attributed to the fact that the developing countries have followed the model of the industrialised countries too closely, for example, by using capital intensive techniques, which has led to heavy dependence on imported inputs". Knall, B., op cit. p.32.

34. Cf. "State-capitalism was anti-imperialist because in generating any independent national development it would necessarily undermine the external hegemony of the imperialists, who aim to maintain their former colonial empires intact". Clarkson, S., The Soviet Theory of Development, op cit., p.43.

35. Ignacy Sachs : Some Observations on the Brazilian Experience of Self-Reliance, p.235 in Pugwash on Self-Reliance, op cit.

36. Cf. "This situation (i.e. "The great necessity of including foreign economy in the entire reproduction") is the result of colonialism. The former colonies and dependencies were forced into a specific international division of labour which served the interests of the metropolitan countries alone and in which they were raw material suppliers and objects of exploitation. Faulwetter, Habil H., "Essential Tendencies and Results of the Foreign Economy of Developing Countries and the Necessity of Improving their Effectiveness", paper No.7 of the Seventh International Summer Seminar on Problems of Reproduction and National Economic Planning, University of Economic Science, Berlin (GDR) (Mimeo), page 2.

37. For example, during the period 1949-50 to 1977-78, Indian exports of tea, iron ore and concentrates, coffee, tobacco, raw-cotton, and manganese ore, (all in physical terms) increased by 163.16, 73,683.98, 5,323.81, 383.91, 289.91 and 94.97 per cent respectively. Calculated by the author from "Basic Statistics Relating to the Indian Economy, 1950-51 to 1975-76, C.S.O., Department of Statistics, Ministry of Planning, New Delhi and Economic Survey, 1977-78 and 1979-80, Ministry of Finance, New Delhi.

38. "Apart from certain still essential raw materials like oil, uranium and aluminium, the West's demand for raw materials from the Third World was declining". Clarkson, S. op cit., p.147.

39. The following table shows percentage change over the previous year for agricultural and industrial production in India:

	<u>Agriculture</u>	<u>Industry</u>
1972-73	- 8.0	4.0
1973-74	9.9	2.2
1974-75	- 3.2	2.6
1975-76	15.2	6.0
1976-77	- 7.0	9.5
1977-78	13.9	3.9
1978-79	2.0	7.5
(The Economic Survey, <u>op cit.</u> , p.1)		



One can see very weak linkages between growth of agricultural output and that of industry even with one year lag.

In fact, this is an aspect of what Szentes, Tamas, calls "the internally non-integrated structure of the economy (and society) of developing countries" which manifest itself, among other things, in "the distorted sectoral structure and the inadequacy of the relations between different branches of the economy" in The Political Economy of Underdevelopment, op cit., p.230.

40. "But perhaps what has not been fully comprehended is that the growth of exports in real terms has been moderate and that it has been achieved at tremendous cost to the national exchequer". (p.1) It goes on to add, "The expenditure of the Government of India on trade and export promotion sharply rose from Rs.2.10 crores in 1964-65 to Rs.225.23 crores in 1976-77 and Rs.283.79 crores (budget provision) in 1977-78". (p.IV) It is further pointed out that this expenditure is higher than in many other countries like U.K., Italy, Japan, France, U.S.A. and West Germany if figures per \$1 million of export earnings are compared. See, Varghese, S.K., "Export Assistance Policy and Export Performance of India in the Seventies", Centre for Policy Research, New Delhi, 1978 (Mimeo).

41. "But unless new outlets for exports are created, servicing of debt is likely to become a problem if the country indulges in taking credits for some years. An increasing share of foreign currency earned through exports will be devoted to this aim and the net capacity to import will, in consequence decrease, unless new credits, are taken. This will start a snowball process, which only shows that even sustained foreign assistance will not solve the problems of the developing countries as long as the stalemate in foreign trade persists". M. Kalecki, op cit., p.72.

42. Ibid., p.67.

43. See, Debt-Problems of the Developing Countries, OECD, Paris, 1974, p.40.

This point has also been made by Domar, E.D. in "The Effects of Foreign Investment on the BOP" in Essays in the Theory of Economic Growth, Oxford University Press, New York, 1957, pp.129-153. He wrote, "The belief that amortisation and interest payments first must approach and then exceed the flow of new investments is widely held among economists; indeed it is one of those rare subjects on which agreement is almost complete", p.130. He traces the view back to Marshall and Cairnes and quotes Jacob Viner, ("International Finance in the Post-War World", Journal of Political Economy, April 1947, p.106) as saying, "Debt-service on amortization and interest

account reaches and exceeds the annual amount of a constant gross outflow of new capital after a period surprisingly short for those like myself who are still capable of being started by the wondrous working of compound interest. For American employment to be sustained for any length of time by American capital exports, there would be needed an outward gross flow of capital increasing each year at an increasing rate and eventually reaching fantastic levels".

44. There may, at times, be open, or, even not-so-open conditions attached to such 'soft' loans which require global tendering or purchases in 'donor' countries, leading to leakages from the amounts so obtained.

45. The traditional concept of import-substitution "deals only with the protection of production. In our work, instead, the whole structure of the markets, production as well as income distribution must both be considered. The protection of local demand seems atleast as important as of the supply", "North-South Interdependence, Development and Trade" in IFDA Dossier, 19 July/August, 1980, p.12 (70).

46. Cf. "If tastes and values of elites in developing countries have provided the demand for patterns of development in those countries imitative of and dependent on the highly industrialised countries, then the concept of a universal technological style and the massive transfer of technology from the industrialised to the developing countries which has flowed from it, have played a major part in the realisation of these patterns". A. Parthasarathi, "The Role of Self-Reliance in Alternative Strategies for Development" in Pugwash on Self-Reliance, op cit., p.20.

47. Kelkar, V.L., "India and World Economy : A Search for Self-Reliance", p.22, Mainstream, New Delhi, March 29, 1980.

48. Griffin, K., op cit., pp.61-66 argued that "aid is essentially a substitute for savings and that a large fraction of foreign capital is used to increase consumption rather than investment", (p.61). Elaborating his contention, he adds, "The 'fungibility' of aid is not restricted in any way. That is, foreign capital finances not the marginal investment project but the marginal expenditure project, and expenditure on the margin is just as likely (perhaps more likely) to be on consumption goods as on capital goods", (p.62).

49. Since the specific, short-run concept of SRD had the support of the dominant, western theories of development and was supported officially by the leading developed countries of the West, it is problematic, if in practice, a poor country implementing SRD in the context outlined above, would have succeeded in obtaining the needed net international resource transfer. It goes without saying that the politics and



priorities of a regime committed to SRD in all its aspects may have to face rough international economic and financial weather. Chagula, W.K., (op cit., p.4) observed "Indeed, until recently, some developed countries have been hesitating to offer development assistance to developing countries which practise self-reliance".

50. Lenin, V.I., "The degree of the development of the home market is the degree of development of capitalism in the country. To raise the question of the limits of the home market separately from that of the degree of development of capitalism (as the Narodnik economists do) is wrong". The Development of Capitalism in Russia, Moscow, Progress, 1977 reprint, p.70.

51. It is on account of such a fairly long-run view that it has been argued that "loans for development, whether from bilateral or multilateral sources, should be regarded as the recipient country's own development effort for these loans will have to be repaid sooner or later". Chagula, W.K., op cit., p.6.

52. See, Weisskopf, T., "The Impact of Foreign Capital Inflow on Domestic Savings in Underdeveloped Countries". Journal of International Economics, February 1972.

53. State intervention for capital formation is indeed not only on account of stepping up the rate, but also for ensuring a specific pattern, consistent with the strategy and goal-structure of development.

54. Foreign exchange needs flow from increased rate of investment for providing savings, technology, investment goods and skilled personnel in different developing countries to varying extents.

55. Ohiorhenuan, John E.E., "Dependence and Non-capitalist Development in the Caribbean. Historical Necessity and Degrees of Freedom", Science and Society, Winter, 1979-80, p.392.

56. This is notwithstanding the fact that a well orchestrated band of writings from the supporters of export-led growth have tried to link "improved export performance" with acceleration in growth rates. A typical example is Bhagwati, J.N. and Srinivasan, T.N., Trade Policy and Development - World Bank Reprint Series No.90, p.17 (Reprinted from "International Economic Policy : Theory and Evidence" Baltimore, John Hopkins University Press, 1978). It says, "There is little doubt that, in the NBER studies for example, the countries that have managed to shift to improved export performance by reducing export bias have also managed to register acceleration in their growth rates, whereas countries that have not done so (and have remained in Phase II regimes) have also had poorer growth rates. The contrast between the success of South Korea and the failure of India, in this regard, is cross-sectionally the most



telling". However, it does not follow that South Korea is now (it does not seem to be anybody's case) developed country, let alone the question of her achieving independent development. In fact, it has been argued that empirical correlation between higher growth rates and export-performance does not indicate that growth follows trade; it may well be that increased trade follows higher growth rates. See, Primit Chaudhary, "A Note on the Irrelevance of Trade," Economic and Political Weekly, Annual Number, February 1976, p.222.

57. Among many works on Dependence Theory, mention may be made of

- a) Palma, G., Dependency : "A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment," World Development, Vol.6, No.7/8, 1978. Reproduced in Mainstream, January 20 and 27, 1979.
- b) Cockcroft, J., Frank, A.G., Johnson, D., Dependence and Underdevelopment : Latin America's Political Economy, Doubleday Books, Garden City, New York, 1972.
- c) Santos, T.D., The Structure of Dependence, American Economic Review, May 1970, pp.231-236.
- d) S. Lall, "Dependence a Useful Concept in Analysing Under-Development?", World Development, Vol.3, No.11, 1975.
- e) Evans, Peter, Dependent Development : The Alliance of Multinational, State and Local Capitals, Princeton University Press, 1979.

58. Ashok Parthasarathi, "Self-Reliance in Science and Technology for Development : Some Aspects of the Indian Experience" in Pugwash on Self-Reliance, op cit., p.205, traces the roots of India's pursuit of self-reliance to freedom struggle and Mahatma Gandhi. He says, "The urge for self-reliance in the sense of a desire not to be dependent on external forces is a primordial one. It is, therefore, perhaps not surprising that in an old civilisation like India, the resurgence associated with the fight against foreign colonial rule should also have rekindled a desire for self-reliance as an integral part of the drive for Swaraj (Freedom). Gandhiji's insistence on self-help, self-sufficiency but also solidarity and interdependence on the basis of equality, contains in germ, the concept of self-reliance in its modern sense of counting on one's own forces".

59. Cf. "Many aspects of the Perspective (i.e. dependency perspective - KNK) and particularly the linkages between external phenomenon and internal class and power relations are clear and need to be studied with more precision and care.

For this reason the dependency perspective is an "approach" to the study of underdevelopment rather than a "theory". J. Samuel Valenzuela and A. Valenzuela, "Modernization and Dependence : Alternative Perspectives in the Study of Latin American Underdevelopment" in Transnational Capitalism and National Development, op cit., p.53 (emphasis added).

60. Descriptive accounts of dependence tend to mention a number of features related to or arising from dependence. It has been argued by Stepanov, I.V. (as reported in Clarkson, S. op cit., p.138) that "Taken individually, some of these criteria do not spell dependence for all nations. New Zealand's : exports of agricultural and raw material products form a greater percentage of its exports than do those for India or Turkey, but Stepanov does not consider New Zealand to be dependent . . . . Applied together, however, they (several criteria), however, describe the total situation of inequality that the developing countries find themselves in vis-a-vis the world capitalist economy. Inequality, indeed, is Stepanov's Synonym for dependence". Echoing this view, Galtung Johan, wrote, "Self-reliance is not merely an abstract recipe, a way of organising the economy with heavy emphasis on the use of local factors, but a concrete fight against any kind of centre-periphery formation with the ultimate aim of arriving at a world where "each part is a centre", (as Cocoyoc declaration puts it)", op cit., p.207 that is to say, "self-reliance cannot be at the expense of self-reliance of others and it implies the autonomy to set one's own goals and realise them as far as possible through one's own efforts, using one's own factors" (op cit., p.208). It means SRD is inconsistent with dependency, but certainly does not rule out dependence or inter-dependence. However, Johan Galtung overstates the point when he says, "self-reliance as a doctrine as located more in the field of psycho-politics than in the field of economics". Apart from being non-holistic and artificially dividing an integrated conception, it seems to underplay the role of material basis of self-reliance. See Chagula's views which consider views of the kind held by Galtung to be partial, Note 82.

61 Palma, G., op cit. Also, Santos, T.D., op cit. A. Parthasarathi, op cit., p.11, said, "What was projected as the main 'engine' of (imitative) development, viz., 'Aid' from industrialised to developing countries in the myriad forms we know it, now, the prevailing pattern of international trade and of the international monetary system, have become instruments of diminution of the poor countries by the rich in a whole host of ways".

62. Kalecki, M., op cit., p.66.

63. Palma, G., op cit., p.53 cited from Mainstream.

64. As the sub-title of the book by Evans, P., op cit., indicates.

65. Marx, K., Capital, Vol.I, Progress, Moscow, 197.

66. Even indirect political interference is quite rampant especially through the use of aid as a tool of foreign policy. Similarly, military aid is also widely used to produce results similar to economic aid.

67. International lending to the developing countries is going on an extending scale through the device of "rolling over" of loans. Partly this is due to what Lewis, W.A. (op cit., p.65) describes, "A banker lends money to earn interest. So long as the interest is safe, there is no need to repay the principal. The loan can be rolled over". But if rolling over "seems to mean that the loan need never be repaid", op cit., p.65, then there must be some other factors besides interest payments which motivate lending which need never be repaid. Among many such factors, creation of demand for one's products in the borrower country, hidden charges through tied loans, increasing capitalist development and external orientation of developing countries, are fairly important for bringing about international debt-bondage.

68. Many factors make the dominant classes and groups accept the new role of foreign capital, particularly in the form of ODA, under the changed political context. For one thing, as a result of simultaneous and faster growth of local capital, foreign capital no longer occupies a predominant place. Since ODA exceeds private foreign capital the terms tend to become softer than before. Then, the sectoral distribution of ODA is different from that seen during colonial period and tends to be integrated with the pattern of priorities contained in the plan for capitalist development. The inflow of such ODA is no longer dominated by the colonial rulers; many developed market economies provide credits on competitive terms. Then, through joint ventures there starts a symbiosis of local and alien capital. These characteristics of the inflow of foreign capital can be seen in the experience of countries like India. See, Kotwal, O.P., Indian Economy in the Soviet Perspective, Sterling, New Delhi, 1979, pp.79-80. Also see the Statement by the Prime Minister of India in Parliament on Participation of Foreign Capital in Industries, April 6, 1949, reproduced in India : Pocket Book of Economic Information, 1967, Government of India, Ministry of Finance, New Delhi, pp.269-270.

69. See, Susan George, How the Other Half Dies, Penguin, Harmondsworth, 1976. Also Lappe, F.M. and Collins J. Food First : The Myth of Scarcity, A Concord Book, London, 1980.



70. Kelkar, V.L., op cit. "In recent years, the developing countries' consumption styles have been showing the "internationalisation process" and this has assumed considerable importance in directing production and investment pattern for many of the developing countries. . . . this aspect (is) an important aspect of "dependence" that leads to the creation of "false needs" and adversely affects the quality of life and other related aspects of development".

71. Summing up the researches by Soviet scholars, Kotwal (op cit., p.84) writes, "Foreign technical collaboration has often led to establishment of industrial concerns, based on the imports of essential component parts of machinery, semi-manufacture and certain raw materials from aid-giving country. Although in the agreement it is stipulated that after a lapse of eight to ten years, such imports shall be eliminated, but in actual practice, it is found that even after the end of this period, the imports continue. According to Shirokov, even if the imports of various components are eliminated, the imports of such items as special steels, various kinds of non-ferrous metals, certain kinds of chemicals, etc. shall continue for a fairly long-time. This way, India's dependence on imports of vital industrial inputs is maintained".

72. Griffin, K., op cit., pp.66-69.

73. Lewis, W.A., op cit. (p.42) has argued that "It looks as if a complex industrial system cannot expand employment at more than 4 per cent a year". It needs no repetition that foreign borrowing comes in for financing modern technology based complex industrial systems.

74. The aims of state capital inflows and private capital inflows are largely similar. According to Malirov, O.V. upto 1965-66 not less than one-third of total state capital inflow from the developed capitalistic countries has been used to finance Indian private industrial enterprise. (Kotwal, op cit., p.81). The cooley-loans out of PL-480 proceeds to Indian private sector are well-known. In so far as ODA goes to finance infrastructure, it paves the way for strengthening monopolies who can readily and relatively advantageously benefit from these "externalities".

75. Cf. Santos, T.D., op cit.

76. Cf. A. Parthasarathi, op cit., p.13, quotes the Working Group on the Socio-Economic and Political Barriers to the Application of Science and Technology to Development, at the 23rd General Conference of the Pugwash Movement (September 1973), "Simply stated this view - Self-Reliance - resolves itself into a question of achieving political, economic and cultural independence and autonomy of decision-making and management".

77. The essence of this concept of SRD is captured in the phrase of Mao-Tse Tung : "Regeneration Through our own Efforts". According to Ronald Berger, Mao used this phrase in a speech in August 1949 ("Self-Reliance, Past and Present" in Eastern Horizon, Vol.IX, No.3, pp.8-24) quoted by Galtung, J., op cit.

78. To give an illustration of how SRD links with internal political and economic structures, let us see how self-reliance in food "requires the allocation of control over agricultural resources to local, democratically organised units", as Lappe and Collins (op cit., p.300) argue, "Since food self-reliance involves not only adequate production but adequate consumption realized by everyone, society will never achieve food self-reliance unless the control of agricultural resources is shared democratically. A re-allocation of control over productive assets is crucial for the redistribution of purchasing power; this alone will ensure that agricultural (and industrial) production benefits the local population instead of just local and foreign elites".

79. Foreign borrowing in the form of ODA and foreign private investment need not be considered competitive. As Clarkson, S. puts it, quoting Pavlov, V.I., "The essence of the reciprocal action of government credits and private investments is the fact that the former clears the road for the latter and the latter in turn facilitates the achievement of the aims of the former". op cit., pp.154-155.

80. Galtung, Johan, "Trade or Development : Some Reflections on Self-Reliance", Economic and Political Weekly, Annual Number, February 1976, p.207. He considers the exercise of giving it more precise connotations "the only self-reliant way of going about defining the term self-reliance". This implies, as though, there can be a concept of self-reliance specific to everyone. Moreover, why the constraint of "a certain nucleus of content" if the only self-reliant way of defining it is "upto all of us to give it more precise connotations". This amounts to making too much of its open endedness, rendering it absolutely individualistic, a social and a historical.

81. "Self-reliance is a component not only of the overall "style" or strategy of such "A New Development", but also of the actual processes by which it is brought about; it takes different forms in different fields - food, energy, finance and technology". A. Parthasarathi, "The Role of Self-Reliance in Alternative Strategies for Development" in Pugwash on Self-Reliance, op cit., p.15 (emphasis added).

82. Chagula, W.K. (op cit., p.4) quotes from the declaration of Pugwash Conference held in Finland in 1973, "Self-reliance does not imply self-sufficiency or autarky, nor is it a one-dimensional concept; thus, "economic", "technological", or "political", self-reliance would provide only a partial approach".

However, Seers, D. "Patterns of Dependence" in Transnational Capitalism and National Development (Ed. Jose J. Villamil, Harvester Press, Hassocks, 1979, pp.101-102) seems to consider self-sufficiency to be the essence of self-reliance. He says, "One of the most crucial influences on a country's economic independence is the extent to which its demand structure matches its supply structure, particularly in energy and food, basically petroleum and cereals". He adds technology to this last, saying a country "can hardly be considered truly self-sufficient if to exploit these resources it has to rely on foreign technology". (p.102; emphasis added). Apart from emphasising some kind of geographical determinism, along with perpetuation of historical leads various countries have had in the matter of technological advance, this view of self-reliance ignores the mutually beneficial potential of a certain kind of international egalitarian relationships. His classification of various countries as least dependent, semi-dependent and dependent on the basis of whether they are substantial net importers of one, two or three key inputs (food, energy, technology) takes a static, non-developmental, isolationist view of international relationships and ignores the "processes" associated with such specific net-importer/net-exporter positions. The ethos behind self-sufficiency is sharply different from that behind self-reliance. The distribution can be explained by pointing out the distinction between "dependency" and "dependence", the latter being consistent with self-reliance.

83. Since SRD is generally taken to succeed "not through the drastic rupture of existing links with capitalist countries but by using these and gradually directing them in the national interest in proportion to the development of production for use" (Clarkson, S., op cit. p.148), foreign aid may be relied upon not "as a natural and permanent factor" but "as an unavoidable but temporary measure" (Ibid., p.149) and one may add, as an integral but subsidiary part of a strategy of development mainly based on internal factors.

84. See, footnote 29 earlier.

85. Kalecki, M., op cit., argued that in evaluating the effects of foreign aid, one must take into account "the final impact of foreign aid, following step-by-step all the successive dislocations caused by the additional imports financed through foreign aid". (p.71). Also "the role played by foreign aid can be evaluated only in the context of a comprehensive analysis of the development problems of the recipient country seen as a whole". (p.69). (Ibid., p.69).